

AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

January 12-14, 2016

Sarasota, FL

MEETING ATTENDANCE

ASB Members

Mike Santay, *Chair*
Gerry Boaz
Dora Burzenski (by phone)
Liz Gantnier
Steve Glover
Dan Hevia
Sandra Johnigan
Ilene Kassman
Ryan Kaye
Marcia Marien
Rich Miller
Dan Montgomery
Steven Morrison
Marc Panucci
Josh Partlow
Rick Reisig
Catherine Schweigel
Jere Shawver
Chad Singletary

AICPA Staff

Dave Arman, *Content Development*
Mike Glynn, *Audit & Attest Standards*
Ahava Goldman, *Audit & Attest Standards*
Hiram Hasty, *Audit & Attest Standards*
Chuck Landes, *Professional Standards*
Teighlor March, *Assistant General Counsel*
Andy Mrakovcic, *Audit & Attest Standards* (by phone)
Judith Sherinsky, *Audit & Attest Standards*
Linda Volkert, *PCPS Technical Issues Committee* (1/13)
Desire Carroll, *BRAAS* (1/14)
Laura Hyland, *Governmental Auditing and Accounting* (1/12)

Observers and Guests

Sally Ann Bailey, *Deloitte & Touche LLP*
Jim Dalkin, *GAO*
Courtney Drake, *EY LLP*
Harrison Greene, Jr., *Federal Deposit Insurance Corporation*
Thomas Groskopf, *CPEA* (1/13-1/14)
Bridget Gyofri, *KPMG LLP*
Jan Herringer, *BDO*
Susan Jones, *KPMG LLP*
Sara Lord, *RSM*
Jeff Markert, *KPMG LLP* (1/12)
Tammy Mooney, *Thompson Reuters*
Paul Penler, *Ernst & Young LLP* (by phone, 1/12 and 1/14)
Beth Schneider, *Deloitte & Touche LLP* (1/14)
Laura Schuetze, *Grant Thornton*
Matt Boran, *KPMG LLP* (by phone, 1/13)

Chair's Report

Mr. Santay welcomed the new board members and introductions were made. Mr. Santay reported on matters of interest to the ASB, including the recent AITF meeting and a joint meeting of the planning groups and chairs of ASB, Peer Review Board and PEEC. Mr. Landes reported on his recent activities, including the activities of ARSC.

The ASB voted to revise the October highlights to reflect the discussions held at that meeting in more detail. The ASB approved the highlights of the November and December meetings, and the revised highlights of the October meeting.

IAASB Update

Mr. Landes provided an update on recent IAASB activity, including the recently issued Invitation to Comment and the IAASB projects on auditing fair values and estimates and on non-conformity with laws and regulations.

1. Direct Engagements

Dan Montgomery and Mike Santay presented an information session on direct engagements. The objective of the session was to (1) provide an overview of the IAASB deliberations and ultimate determinations related to direct engagements; (2) provide an overview of ASB activities to-date; and (3) obtain direction from the ASB on key issues.

In a direct engagement, the responsible party (responsible for the subject matter) has not done the measuring and does not provide an assertion or other representation about the outcome of the measurement in relation to the criteria.

Mr. Montgomery provided an update on the IAASB activities. He noted that the IAASB standard on assurance engagements (ISAE 3000) deals with attestation engagements but may be applied (adapted as necessary) to direct engagements. He also noted that Canada had issued a separate attestation standard on direct engagements and was a primary driver at the IAASB as to the need to adopt a direct engagement standard. The ASB expressed a desire to better understand the nature of, and the current and potential market demand for, these engagements internationally.

Mr. Santay described previous ASB activities on direct engagements and presented issues for discussion to the ASB.

The ASB raised a number of questions related to direct engagements in the context of current standards and practice, including how users may perceive direct engagements, related to financial statement audits and reviews, current attestation services and consulting engagements. The Direct Engagement task force will address, as appropriate, in their deliberations.

The ASB discussed convergence with ISAE 3000 or the Canadian standards. Some ASB members noted that only a few paragraphs in ISAE 3000 address direct engagements and that a broader standard with more detail would be preferable. With respect to the Canadian standard, certain members noted that current practice seems mostly applicable to public sector audits, but noted that the standard did not differentiate between two party and three party engagements.

The ASB discussed the requirement in the clarified attestation standards that the practitioner withdraw from the engagement if an assertion is not obtained from the responsible party when the responsible party is also the engaging party. ISAE 3000 does not have this specific requirement, but does require certain actions of the practitioner in situations where requested

assertions (or representations) are not obtained. This difference might make it difficult to converge with ISAE 3000 with respect to direct engagements.

The ASB discussed briefly the issue of scope; that is, when an engagement would require an assertion about the subject matter information (and thus not be appropriate for a direct engagement). The questions of what the report in a direct engagement would look like, what it would contain (such as, findings, recommendations, conclusions, opinion) and how it would differ from a report under the existing attestation standards were also raised. The Board noted that these are matters that the Task Force would likely need to address.

2. Exempt Securities

Chris Smith, chair of the Exempt Securities Task Force (Task Force), led the ASB in a discussion of a draft proposed standard, *The Auditor's Involvement with Offering Documents Other than Filings with the U.S. Securities and Exchange Commission Under the Securities Act of 1933*. The ASB recommended that the following items be considered for changes to the draft. A revised draft will be presented to the ASB for discussion at the May 2016 meeting.

Introduction/Scope

- The ASB generally agreed that the breadth of the proposed scope as “an offering of an investment that is not registered with the SEC under the Securities Act of 1933” is appropriate. However, the ASB directed the Task Force to evaluate the use of terms “nonissuer” and “investment.”
- The ASB also generally agreed with the two benchmark model:
 1. The auditor’s report on financial statements (or the auditor’s review report on a review of interim financial information) is included or incorporated by reference in an offering document; and
 2. The auditor performs one of the defined trigger activities (refer to paragraph .07. of the proposed SAS).

However, the ASB agreed to strike 01.b from the scope, “the terms of the audit engagement require the entity to obtain permission from the auditor before using the auditor’s report in connection with an offering of investments or similar undertaking”. The scope will be revised to limit the scope to performing one or more of the activities discussed in paragraph .07.

- ASB members discussed “included” and “incorporated by reference” as some thought certain terms have a definitive meaning in securities law. Others suggested the terms have a common understanding. The Task Force will research and evaluate the appropriateness of the terms and whether additional guidance is necessary.
- The inclusion of financial statements in an offering may or may not constitute a reissuance. The evaluation of this matter is left to practitioners based on facts and circumstances. There is no need for the proposed statement to address the notion of reissuance.

Effective Date

- ASB members supported the alignment of the effective date and relevant procedures to the date of the distribution, circulation, or submission of offering documents. However, the dating references were inconsistent and will be revised.
- The Task Force will consider a documentation requirement to consider the relevant dates identified by the auditor, client, and counsel. It will also evaluate whether there are other dates to consider (e.g., closing, effective, qualification).

Objective

- The ASB directed the Task Force to revisit the objective to align better with the standard and be more concise.

Definitions

- ASB suggested additional editorial changes.

Involvement

- ASB members expressed concern with the term “involved”; Task Force will evaluate whether the notion is necessary.
- Overall, ASB was in agreement with the engagement triggers (.07a-e) proposed.
- Focus of the conversation was on the “acknowledgement” triggers (providing a revised auditor’s report or signing a report for inclusion in an offering). Some thought that any action by a firm with regard to an offering should constitute involvement. Others thought that a revised or signed report is within the context of the original audit engagement and would not constitute involvement. The ASB discussed the common scenario of a report initially issued that states the audit was performed in accordance with both Government Auditing Standards and generally accepted auditing standards (GAAS) but the client wishes to include a report in the offering that only cites GAAS. There may be crossover to other scenarios (locked/unlocked PDFs). The Task Force will reconsider the issues raised regarding the acknowledgement triggers along with the public interest.

Subsequent Events

- There were differences of opinion on requiring subsequent events. The majority of members who spoke up on this issue supported the requirement noting it is in the public interest and once the auditor is deemed involved, performing such procedures makes sense. Others suggested that reading the document (similar to AU-C 720) would give an opportunity to note inconsistencies with the financial statements or misstatement of fact and that an auditor would only apply subsequent procedures if deemed necessary. ASB directed the Task Force to maintain the subsequent events procedures.

Other Comments

- Detailed comments and editorial suggestions were provided by ASB.

3. Going Concern

Mr. Panucci led a discussion of the proposed revisions to SAS No. 126, *The Auditor's Consideration of An Entity's Ability to Continue as a Going Concern* (AU-C 570). The objective of the discussion was to discuss key issues and review the first draft of the proposed SAS and the amendments to AU-C 930, *Interim Financial Information*.

The following is a summary of the matters discussed.

Auditor Reporting Issues

Mr. Panucci presented the Task Force's recommendations in response to the ASB's feedback received at the October 2015 ASB meeting as follows.

- The Task Force recommended including illustrative examples when the financial reporting framework requires management to disclose that substantial doubt exists and when management has no requirement under the financial reporting framework to disclose that substantial doubt exists. After discussion, the ASB agreed with the Task Force's recommendations.
- The Task Force recommended application guidance be included that the auditor may include an emphasis-of-matter paragraph if management includes conditions or events related to the entity's ability to continue as a going concern but substantial doubt has been alleviated. After discussion, the ASB agreed with the Task Force's recommendations but suggested the wording focus on the disclosure of conditions or events and not that substantial doubt has been alleviated as this is not part of management's disclosure. The ASB also asked that illustrative language be included.
- The Task Force provided application guidance to address considerations in audits of special purpose frameworks and audits of single financial statements and specific elements, accounts, or items of a financial statement based upon the discussion at the ASB meeting in October 2015. In doing that, Mr. Panucci presented the Task Force's options to address the uncertainty with respect to the work effort that would be required to apply AU-C 570 when the going concern basis of accounting is not applied or when it may not be inherently relevant to a single financial statement or specific element, account, or item of a financial statement. After discussion, the ASB decided with the option to make amendments to AU-C 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, and AU-C 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, to discuss the responsibility of the auditor to evaluate whether disclosures are needed related to risk and uncertainties in achieving fair presentation in those engagements instead of applying AU-C 570. This in effect will entail removing all of the Task Force's suggested edits to the proposed AU-C 570 to address the various issues related to audits of special purpose frameworks.

- The ASB agreed with the Task Force no additional guidance was needed about situations involving audits of summary financial information.

Interim Financial Information

Mr. Panucci presented the Task Force's recommendations to include requirements and related illustrative examples of emphasis-of-matter paragraphs to address the various circumstances that might arise in reviews of interim financial information related to going concern. In addition, Mr. Panucci discussed the Task Force's recommendations to add an application guidance paragraph to address situations when conditions or events are identified but substantial doubt is alleviated or the financial reporting framework does not require a statement in the notes that substantial doubt exists.

The ASB agreed with the Task Force's recommendations and suggested various edits. Also, the ASB directed the Task Force to consider including application guidance to include an illustrative emphasis-of-matter paragraph in accordance with AU-C Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, if management has disclosed in the notes to the financial statements the conditions or events are identified but substantial doubt is alleviated or the financial reporting framework does not require a statement in the notes that substantial doubt exists.

The ASB agreed with the requirement and application guidance related to performing interim review procedures when the applicable financial reporting framework includes a requirement for management to assess the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial statements.

Reasonable Period of Time

Based on the ASB's decision to address the issues related to audits of special purpose frameworks in AU-C 800, the additional application guidance to further clarify the definition of reasonable period of time in order to address audits of special purpose frameworks will no longer be necessary in AU-C 570.

Mr. Panucci discussed the proposed modifications to paragraph 16 and the proposed changes to the related application guidance which would limit the application of this paragraph to situations where the definition of reasonable period of time is expressed as a minimum time period. After discussion, the ASB decided on reverting to the ISA wording and deleting the proposed edits suggested by the Task Force; therefore, the requirement will be applicable in all situations.

Disclaimer of Opinion

Mr. Panucci discussed the Task Force's decision not to include an illustration of a disclaimer related to uncertainties be included because such situations are expected to be rare. Mr. Montgomery suggested deleting paragraph 27 of the proposed SAS. This is because in his view, the auditor's decision to disclaim an opinion is matter of whether sufficient appropriate audit evidence has been obtained rather than a going concern consideration and from a convergence perspective it is not included in the ISAs. He suggested that the Task Force research whether the

issue of uncertainties more broadly is included in AU-C 705, *Modifications to the Opinion in the Independent Auditor's Report*. The results of the research and if applicable a Task Force recommendation will be presented at the May 2016 meeting.

Reissued Reports

Mr. Panucci discussed the issue identified by the Task Force with respect to situations in which the auditor may be requested to reissue an auditor's report and noted that neither the requirement in paragraph 31 nor the related application guidance address the reasonable period of time that should be covered by the entity and therefore the auditor. After discussion, the ASB concluded that this issue was more of an accounting question.

Review of Proposed AU-C 570 and Amendments to AU-C 930

The ASB reviewed the proposed AU-C 570 and amendments to AU-C 930 paragraph-by-paragraph. In doing that, the ASB directed the Task Force to consider proposing a conforming amendment to AU-C 580 to add a general written representation that would cover going concern. The ASB also suggested various edits to the proposed AU-C 570 and amendments to AU-C 930.

4. Auditor Reporting

Mr. Montgomery provided an update to the ASB on the auditor reporting project and led a discussion of threshold issues relating to ASB's stated goal of convergence with the International Auditing and Assurance Standards Board (IAASB) auditor reporting standards while minimizing unnecessary differences with the Public Company Accounting Oversight Board (PCAOB).

The following is a summary of the matters discussed. Two consistent themes in discussing each issue were the need for outreach and communication with stakeholders, and the need for a framework for the task force and ASB for determining how to converge with the ISAs while minimizing unnecessary differences with PCAOB standards. Overall the ASB was supportive of moving forward, keeping in mind the public interest.

Issue 1: Timing of ASB Project

Given the ASB's stated goal above, the ASB discussed whether the task force should move forward in discussing issues and proposing revisions based on the IAASB's new and revised auditor reporting standards, or wait until the PCAOB issues its re-proposal (expected in second quarter of 2016).

The discussion included the following points:

- Concern was expressed about having reports in the US that are different for issuers and non-issuers, for example, that have different wording to explain the auditor's responsibility and the key features of an audit.
- Research and outreach, both in the US and internationally, indicates that users are not confused by different forms of reports.

- The ASB discussed the need for a framework to guide discussions and decisions, particularly in areas when the ISAs and the PCAOB re-proposal standards are more sharply divergent.
- The standards could provide flexibility to the auditor in deciding which wording to adopt. Concerns were expressed that this would create inconsistency in practice and regulators tend to be very strict about using exact wording.
- It was acknowledged that some flexibility in reporting, particularly for certain elements of the auditor's report, may be needed to achieve the stated goal of convergence with the ISAs while minimizing unnecessary differences with the PCAOB standards.
- It will be important to communicate with all stakeholders about the changes and the reasons for the change. A Basis for Conclusions document would be very helpful in that regard.

Issue 2: Ordering of the Opinion Section of the Auditor's Report

The discussion included the following points:

- Global academic research jointly sponsored by the IAASB and ASB indicated that users value the auditor's opinion and its pass/fail nature. Because of the value placed on the opinion and the fact that it is the first thing many users look to when reading the auditor's report, there was strong support among all stakeholder groups for placing the opinion first.
- Based on the above, the IAASB concluded that it would be in the public interest to require the opinion to come first (with exceptions provided for law and regulation and dual reporting). There has been overwhelming support around the world for this decision.
- Some believe that, in litigation, only the opinion itself matters, not geography. On the other hand, there is support for having "the story" come first (i.e., scope of the audit, description of the auditor's responsibilities and other reporting elements).
- AICPA as a member of IFAC has pledged to make best faith efforts to converge with IFAC standards; thus, the strategic objective of convergence with the ISAs. However, having auditor's reports in the US look similar to auditor's reports around the world may not be compelling to stakeholders who only work with GAAS reports, or those who work with GAAS and PCAOB standards.
- As noted in the discussion of issue 1, there is a need for a framework for determining how to "converge and minimize" and a need for communication as to the rationale for change and the value for the stakeholders.

Issue 3: Expanded Standardized Language in the Auditor's Report

ISA 700 requires an expanded description of the auditor's responsibilities and the key themes of an audit. The ISAs permit some of this information to be included in an appendix to the auditor's report (rather than the body of the report) and also permit a link to a website containing this description. At this stage, however, the UK is the only known jurisdiction where some auditors are including a link in the auditor's report to a website for an expanded description of auditor responsibilities. The consensus among ASB members was to require that the description itself be included in the body of the auditor's report.

The IAASB's research indicated that stakeholders supported the expanded description, which includes key concepts from ISA 200, *Overall Objectives of the Independent Auditor and Conduct of an Audit in Accordance With the ISAs*. Some of the research was conducted in the US, dealing only with non-issuers. The IAASB required specific wording to encourage consistency, and expressed the belief that the expanded description would drive auditor behavior and improve audit quality.

Issue 4: Communicating Key Audit Matters

Mr. Montgomery provided background to the decisions the IAASB made regarding the communication of key audit matters (KAM), which is required for listed (public) entities and voluntary for other entities. Users are finding KAM helpful and the concerns of preparers regarding costs or timing of the reporting process have been less of an issue than expected in those jurisdictions where extended auditor's reports are being issued.

The following points were raised in the discussion:

- KAM provides additional transparency into the audit. Investors and other users, including regulators, believe this provides additional value to users and therefore is in the public interest.
- Some ASB members supported voluntary KAM and letting its use be market-driven; others believed that if KAM are to be included in GAAS reports, inclusion should be mandatory.
- ASB members expressed the belief that, if the communication of KAM is voluntary, appropriate guidance needs to be available to auditors. One member suggested issuing an interpretation referring to ISA 701, while others supported a separate US standard based on ISA 701.
- The ASB raised concerns about
 - how small firms would apply KAM and whether it would become boilerplate
 - consistency in practice
 - the consequences in the US litigious environment, including the exposure of omitting a matter that later turned out to be a KAM
 - how it would be applied in a government audit with different opinion units

5. Sustainability Reporting

Beth Schneider, Chair of the Sustainability Task Force, led the ASB in a discussion of key additional requirements included in the draft chapter, *Attestation Engagements on Sustainability Information*, and whether any such requirements warrant revision of the clarified attestation standards rather than inclusion in a sustainability-specific attest standard. Ms. Schneider also reviewed the options discussed in December with the AITF on developing a standard vs. a guide or a standard supplemented with a guide, and the pros and cons of each option.

Some ASB members believed that some of the key additional requirements (which relate to measurement uncertainty, management's specialist, application of the consistency principle, performance matters relating to reporting boundaries and management representations, and various reporting matters that are frequently encountered in sustainability information attestation

engagements) are relevant to all attestation engagements and that such requirements warrant revision of the clarified attestation standards rather than inclusion in a sustainability-specific attest standard.

Other ASB members believed the development of a sustainability-specific attest standard was preferable because valuable feedback could be obtained during the exposure process on the various key additional requirements, and the added visibility of a sustainability-specific attest standard would address current market concerns about the lack of such a standard in addition to helping increase consistency of engagement performance. Further, the ASB also believed that a sustainability-specific attest standard could benefit the international community.

The ASB agreed that the Sustainability Task Force should incorporate the new requirements in a separate sustainability-specific attest standard instead of revising the clarified attestation standards. The ASB emphasized the importance of clearly defining the scope of the sustainability attest standard to ensure that practitioners know whether their engagements fall within its scope. The ASB also provided brief feedback on the proposed new requirements, but agreed to provide detailed feedback on such requirements at the next ASB meeting when reviewing the complete draft standard.

Liaison Meetings

The ASB met with the PCPS Technical Issues Committee and discussed issues of mutual interest. Topics covered included direct engagements, materiality, group audits, and going concern.

The ASB met with the Assurance Services Executive Committee (ASEC) and discussed issues of mutual interest. Topics included direct engagements, cybersecurity, and audit data analytics.