

AUDITING STANDARDS BOARD (ASB)

Meeting Highlights (DRAFT)

January 9-12, 2017

Fort Lauderdale, FL

MEETING ATTENDANCE

ASB Members

Mike Santay, *Chair*

Gerry Boaz

Jay Brodish

Dora Burzenski

Joseph Cascio

Larry Gill

Steve Glover

Gaylen Hansen

Tracy Harding

Dan Hevia

Ilene Kassman

Alan Long

Rich Miller

Dan Montgomery

Steven Morrison

Rick Reisig

Catherine Schweigel

Jere Shawver

Chad Singletary (except 1/9)

AICPA Staff

Sue Coffey, *Public Practice* (1/9)

Mike Glynn, *Audit & Attest Standards*

Ahava Goldman, *A&A Standards*

Hiram Hasty, *A&A Standards*

Laura Hyland, *Governmental A&A*

Kristy Illuzzi, *PCPS Technical Issues Committee*

Chuck Landes, *Professional Standards*

Teighlor March, *Assistant General Counsel*

Observers and Guests

Denny Ard, *Dixon Hughes Goodman LLP* (1/10)

Liz Gantner, *Dixon Hughes Goodman LLP* (1/11)

Sally Ann Bailey, *Deloitte & Touche LLP*

Adam Barrow, *EY LLP*

Jim Dalkin, *GAO*

Courtney Drake, *EY LLP*

Sara Lord, *RSM LLP*

Bridget Gyofri, *KPMG LLP*

Josie Hammond, *RSM LLP*

Kathy Healy, *PwC LLP*

Vicki Hellenbrand, *Baker Tilly Virchow Krause, LLP*

Jan Herringer, *BDO*

Susan Jones, *KPMG LLP*

Ken Kumor, *AON*

Nigyar Mamedova, *NASBA*

Jeff Markert *KMPG* (1/10-11)

Lynne McMennamin, *U.S. Department of Labor*

Tammy Mooney, *Thompson Reuters*

Arnold Schilder, *IAASB* (1/11)

Darrel Schubert, *Ernst & Young LLP* by phone

Laura Schuetze, *Grant Thornton* (by phone)

Chris Smith, *BDO* (1/10)

David Steimel, *EKS&H, LLP*

Dan Wernke, *Clark Schaefer Hackett* (1/11)

Chair's Report

Mr. Santay reported on recent meetings with the PCAOB SAG and the AITF. Mr. Landes reported on interpretations under development addressing reporting under the appropriate GAAP, reporting under a regulatory framework, and reporting under two sets of auditing standards. Ms. March reported on outreach to the PCAOB.

October highlights were approved as amended.

1. Going Concern

Mr. Morrison led a discussion of the proposed SAS and conforming amendments with the objective of voting the proposed SAS as a final standard. Members provided several editorial comments.

With respect to the applicability of AU-C section 570 to audits of single financial statements and specific elements, accounts, or items of a financial statement, the ASB decided against including the explicit statement that AU-C 570 does not apply. Upon reflection, members expressed concern that given the interrelationship of all the auditing standards, highlighting the exclusion of a specific standard could have unintended consequences. The ASB noted that there will be another opportunity to explore the applicability of AU-C 570 in such audits as part of the Auditor's report project or as a separate project.

The ASB voted unanimously to ballot for issuance the proposed SAS as a final standard (SAS No. 132). The final standard will be effective for (i) audits of financial statements for periods ending on or after December 15, 2017 and (ii) reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017.

2. Reporting on ERISA Plan Financial Statements

Mr. Schubert, chair of the EBP Auditor Reporting Task Force (EBP task force), led the Auditing Standards Board (ASB) in a discussion of a proposed standard to address performance and reporting requirements for audits of financial statements of employee benefit plans subject to ERISA (ERISA plan financial statements). The proposed standard includes requirements for the form and content of the auditor's report for an unmodified opinion, a new opinion when an ERISA-permitted scope limitation is imposed and a new reporting element to report the findings from procedures performed on specific plan provisions relating to the financial statements. The ASB will meet via teleconference on February 22, 2017 to vote to ballot the proposed standard for exposure.

The ASB asked the task force to include questions in the exposure document to obtain input from the public on the following areas of the proposed standard:

- Audit procedures to be performed on the disclosure of investment information when performing an audit with the ERISA-permitted scope limitation

- The interaction of AU-C 705, *Modifications to the Opinion in the Independent Auditor's Report*, when performing an audit with the ERISA-permitted scope limitation
- The new opinion for an audit when the only limitation on the audit is the ERISA permitted scope limitation
- The inclusion of required emphasis of matter paragraphs in the auditor's report
- The inclusion of the findings in the auditor's report when reporting on specific plan provisions relating to the financial statements
- The option for plan management to issue a written response to the findings, and the inclusion of such response, in the auditor's report relating to the reporting on specific plan provisions relating to the financial statements
- Whether there are other AU-C sections not identified in the appendix to the proposed standard that should be amended.

The ASB provided the task force with the following suggested changes, as well as editorial comments:

<i>Paragraph Reference</i>	<i>Comment</i>
Scope of This Proposed SAS	
.03	Delete the second sentence because it is not necessary
.04-.05, .A6	Clarify the scope of the proposed SAS by revising paragraphs .04 and .05 and combining paragraph .A6 with the requirement.
Fn 2	Replace references to AU-C 700 by referencing the glossary
Effective Date	
.10	Include an effective date for audits of ERISA plan financial statements for periods ending on or after December 15, 2018
Objectives	
.11	Reorganize the objectives to include the report on specific plan provisions relating to the financial statements as a separate bullet
Definitions	
.12	Revise the definition of findings to exclude reference to obtaining sufficient appropriate audit evidence

<i>Paragraph Reference</i>	<i>Comment</i>
Requirements	
<i>Highlighted Requirements for Audits of ERISA Plan Financial Statements</i>	
Title	Consider revising the title to this section
.15	Better clarify that the requirements in paragraphs .16-.17 are not all the audit procedures needed for an audit of ERISA plan financial statements
General	Use consistent terminology to refer to “plan document” or “plan instrument”
.16	Remove the reference to sufficient appropriate audit evidence; consider whether “administered” is needed in the requirements when the requirement relates to a calculation
.A13	Remove examples of plan documents for health and welfare plans because they are confusing
.A17	Include the notion that the nature and extent of testing to be performed by the auditor may be influenced by the results of other testing performed as part of the audit.
.A18-.A35	Retain the assertions and review them for consistency and accuracy
.A25	Clarify that the paragraph is for defined contribution plans
.16(e)	Clarify that prohibited transactions may be identified by management or as part of the audit; reference to a definition of prohibited transaction
.A27 & .A35	Consider whether this application material is needed because it doesn’t add much more than what is in the requirement
.16(i)	Revise the use of “allocated” because account activity is not allocated
.A40	Clarify that this testing may not include substantive testing
.18	Remove requirement to document “how the objective of the procedure was achieved” because the documentation of the procedure will provide the appropriate information
.A43	Clarify that the findings are accumulated during the audit
.A44	Remove the reference to fines and penalties to the plan sponsor as the auditor is not responsible for assessing such penalties

<i>Paragraph Reference</i>	<i>Comment</i>
.A42	Conform to paragraph .21 to include investment information not covered by the certification
<i>Procedures When ERISA-Permitted Scope Limitation is Imposed</i>	
.A51	Align test step with the requirement in paragraph .21(c)
.A53(d)	Change “trustee” to “management
<i>Form of Opinion</i>	
.35 and .A67	Clarify that it is the separate section on the Limitation on the Scope of the Audit that is not appropriate to include; the content of paragraph .94(i) may be appropriate
<i>Auditor’s Report on ERISA Plan Financial Statements When There is No ERISA-Permitted Scope Limitation</i>	
.60 (c)	Combine with .60(b)
.A95	Clarify that the auditor is not required to reference to the benefit obligations in the opinion paragraph of the auditor’s report when the benefit obligations are included in the notes to the financial statements
.67 & .110	Clarify that when findings are included in the auditor’s report and the opinion on the financial statements is not affected by the findings to include a statement that the report is not modified with respect to the findings. When the auditor’s opinion on the financial statements is modified due to the findings such a statement should be omitted.
.A101 & .A135	Consider the placement of this application material as it does not seem to fit the corresponding requirement
.75 & .A109-.A113	Removed content relating to PCAOB reports for audits conducted in accordance with the standards of the PCAOB and GAAS when the audit is not within the jurisdiction of the PCAOB because this is not likely to occur in ERISA plan engagements
<i>Emphasis-of-Matter Paragraphs</i>	
.117(b)	Revise requirement to be framework neutral
.A138	Revise illustrative emphasis-of-matter paragraph because the board of directors cannot merge a plan

<i>Paragraph Reference</i>	<i>Comment</i>
<i>Reporting on ERISA Supplemental Schedules</i>	
.119(b)	Conform requirement to the illustrative report to include "...but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974
.119(g)	Expand to cover both an unmodified opinion and when the opinion with the ERISA-permitted scope limitation is issued.
.119(h)	Move requirement to application material and combine with .A142 and .A143. Add new application material for when a party in interest is also a related party.
<i>Reporting on Specific Plan Provisions Relating to the Financial Statements</i>	
.121	Revise to indicate that the report on specific plan provisions is provided in a separate section of the auditor's report or in a separate report
.122 & .A147	Change "matters" to "findings"
.A146	Provide a better link to why we have included a discussion about AU-C 260
.124(d)(ii)	Clarify that the list in the report needs to be customized based on circumstances of the engagement; include reference to the professional standards as it relates to AU-C 703
.124(f)	Clarify that the statement that the opinion on the financial statements is not modified with respect to this matter is omitted when the auditor's report is modified due to the findings

3. Exempt Securities

Chris Smith, chair of the ASB Exempt Securities Task Force (the Task Force), led the ASB in a discussion on responses to the Exposure Draft of proposed SAS, *Auditor Involvement with Exempt Offering Documents* (AU-C section 945). The ASB also did a read-through of the entire draft SAS. As discussed in more depth below, the ASB discussed a number of changes to the document and agreed to table further discussion on the scope of the proposed SAS to allow the Task Force to do more research and outreach on franchise agreements. The Task Force will bring a ballot draft to the May 2017 ASB meeting for final vote.

Overall

All but one of the 20 comment letters received in response to the Exposure Draft were supportive and the ASB concurred with the Task Force that the charge to move forward with the proposed standard is valid.

The following summarizes the discussion at the meeting resulting from 1) the issues presented in the ED for which specific feedback was requested and 2) other aspects of the Exposure Draft for which responses were provided.

Issue I. Scope of the Standard (Types of Offerings Included)

The ASB reached a tentative conclusion that franchise offerings remain appropriate to include in the scope of the SAS. However further discussion by the ASB was tabled until more outreach and research has been conducted by the Exempt Securities Task Force. Feedback from the Task Force outreach will be provided at the May 2017 ASB meeting.

Issue II. Triggers to Involvement

The ASB generally agreed that the seven proposed triggers are appropriate (see related discussion in Items IV & V) and that no other potential triggers have been omitted.

Issue III. Subsequent Event Procedures

The majority of respondents agreed with the proposed requirements for subsequent event procedures to be performed when the auditor is deemed involved with an exempt offering document.

The ASB discussed comments that raised concerns but ultimately agreed that subsequent event procedures are appropriate when involved with an exempt offering document.

- The Task Force will develop a definition of subsequent events solely to be used in the context of AU-C section 945 to reflect the difference in timing to consider (i.e., events occurring between the date of the auditor's report and the date of distribution, circulation, or submission of the exempt offering document) and a notion of only those events occurring in that period that are so significant that they could undermine the credibility of previously issued financial statements would need to be considered.
- The Task Force will also review the document for consistent and appropriate use of the terms "subsequently discovered facts" and "subsequent events".

IV. Trigger 8(b)vii - Signing a Copy of the Auditor's Report for Inclusion in the Offering Document

Numerous respondents requested clarification on what "signing a copy of the auditor's report" is meant to encompass. The Task Force provided revised application material addressing scenarios that encompass the meaning, and scenarios that do not.

The ASB concurred with the views put forth by the Task Force. The wording for the trigger will be changed from "signing a copy of an auditor's report" to "updating an auditor's report."

V. Trigger 8(b)ii – Reading a Draft of the Offering Document at the Entity’s Request

The Board discussed issues respondents raised with regard to the trigger: “reading a draft of the offering document at the entity’s request.” Some respondents suggested that the trigger should also require providing written feedback based upon the reading of the draft. Others raised concern that firms could voluntarily read the document and provide feedback to their client without actually triggering involvement.

The Board discussed the trigger and agreed that reading and providing feedback was not an appropriate trigger as there is no requirement in AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*.

The Task Force will add guidance to indicate that whether reading at the entity’s request or providing feedback to the entity on the exempt offering document constitutes a triggering event.

Other Edits/Changes to Consider:

- Included or incorporated by reference: The ASB discussed what is meant by “incorporated by reference” for purposes on this SAS. Note that this phrase is being considered as part of the ASB’s Disclosure Project.
- Incorporate paragraph 14 (predecessor of an acquired entity guidance) into paragraph 13.
- Align wording with the revisions to AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.

4. Selected Procedures

Mr. Ard led the ASB in a discussion of issues related to, and a revised draft of, a proposed standard dealing with engagements to perform selected procedures. A summary of the decisions of the ASB is as follows:

- The consensus view of the ASB members was that the Task Force is on the right track with respect to responsibility for the sufficiency of the procedures performed. The ASB directed that the standard include a clear requirement that the practitioner, prior to issuing the selected procedures report, make the engaging party aware of the procedures performed. Such acknowledgment does not constitute the engaging party taking responsibility for the sufficiency of the procedures performed.
- The ASB directed that the Task Force should prepare a stand-alone chapter that covers common concepts for non-assertion based attestation standards. The ASB directed that the section
 - use AT-C section 105 as a base
 - include a requirement that the practitioner cannot take responsibility for the subject matter of the engagement (perhaps as part of the requirement that the practitioner be independent).
 - consider need for definition of “another party”

- address restricted-use reporting, making clear that the practitioner is not required to restrict the use of a selected procedures report and including additional guidance for restricted-purpose reporting on governmental financial statements
- The ASB agreed that the practitioner should be required to request written representations as part of a selected procedures engagement.
- The ASB directed that the Task Force present additional illustrative reports, not based on the lottery example, that include illustrative reported findings and an illustration on selected procedures performed on a financial statement element.

A revised draft will be brought back to the ASB in May.

5. Other Information

The ASB discussed issues relating to the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* and walked through the draft standard. The following represents the ASB's consideration of the significant issues and feedback provided to the Other Information Task Force:

- Documents/information within the scope of the standard
 - The ASB directed that the standard provide examples of other documents outside the annual report to which the standard may be applied (for example, exempt securities, Form 5500, loan documents)
- Definitions
 - The ASB directed that the standard not include the definition of *inconsistency* from extant AU-C section 720.
 - The ASB directed that the definition of *misstatement* be consistent with the ISA 720 (Revised) definition – which would result in the terms *misleading* and *omits* being included in the proposed standard.
 - With respect to omitted information, the ASB directed that application guidance be developed that makes clear that the auditor's responsibility is to act if the auditor is aware that information is omitted but has no responsibility to search for omitted information or to conclude that the other information is complete.
 - ASB members suggested that the Task Force may consider language/guidance from the following with respect to omitted information/obscured information:
 - Proposed ISA, *Addressing Disclosures in the Audit of Financial Statements*.

- SEC Rule 10b-5
- Obtaining the other information
 - The ASB directed that the Task Force develop guidance that would assist the auditor in determining, through discussions with management, whether other information includes information that is available through a hyperlink in the annual report or is incorporated by reference.
 - The ASB directed that the Task Force consider what the auditor should be required to do in situations where the entity fails to provide documents that form part of the annual report.
- Knowledge of component auditors when the group auditor does not assume responsibility for the work of component auditors
 - The ASB directed that the standard make clear that the group auditor is responsible for reading the entire annual report but that if the group auditor does not assume responsibility for the work of component auditors, the group auditor's knowledge does not include the component auditor's knowledge.
 - The ASB stated that divided responsibility does not alleviate the group auditor's responsibility to understand the component and directed that the Task Force consider AU-C section 600 with respect to communications with component auditors. The group auditor may need to communicate with the component auditor even if the group auditor does not accept responsibility for the work of the component auditor.
 - The ASB directed that the Task Force consider how the report would read in the case where the group audit does not assume responsibility for the work of component auditors.
- Reporting
 - The ASB directed that the reporting requirements not include the ISA 720 (Revised) requirements for listed (public) company audits – that is, the auditor is not responsible for (i.e., no reporting responsibilities) other information that is not received as of the date of the auditor's report.

6. Auditor reporting

Mr. Montgomery, chair of Auditor Reporting Task Force, led the ASB in a discussion of a proposed standard for communicating key audit matters (KAM) in the auditor's report. The proposed standard reflects convergence with ISA 701, *Communicating Key Audit Matters in the Auditor's Report*.

The ASB supported developing a new AU-C section 701 to address communicating KAM. In addition, the ASB supported convergence with ISA 701 and directed the task force to eliminate

differences between the proposed standard and ISA 701, unless those differences are necessary for application in the United States.

The ASB provided the task force with the following direction:

- Revise paragraph .04 so that the proposed SAS applies when the auditor decides to communicate KAM. Consider changes to AU-C section 210, *Terms of Engagement*, to address what should be included in the engagement letter
- Preclude communicating KAM when the auditor issues an adverse opinion or disclaims an opinion on the financial statements

The ASB will continue to discuss auditor reporting at the May 2017 ASB meeting.

7. Direct Engagements

Ms. Schweigel provided the ASB with an update on the project to develop a standard on direct engagements. A proposed draft that is closely aligned with the Canadian standard on direct engagements is expected to be brought to the ASB in May.

Mr. Santay addressed a suggestion that the clarified attestation standards be revised to incorporate direct and selected procedures engagements. The ASB had decided that, rather than re-opening standards that aren't effective yet, to develop new types of engagements for which an assertion is not required. Integrating these concepts into the existing standards might not be any easier than developing new standards, and separate standards will better help practitioners understand the new types of engagements.

IAASB Update

Professor Arnold Schilder, chair of the IAASB, provided a presentation to the ASB covering the IAASB structure, outreach efforts and current projects.

Liaison meetings

The ASB met with the PCPS Technical Issues Committee and discussed issues relating to the ASB's current projects. The ASB also met with the Assurance Services Executive Committee (ASEC) and discussed issues of mutual interest. Topics included direct engagements; audit data analytics guide update and RADAR initiative; cybersecurity update (discussed various issues the task force is dealing with in resolving comments on the draft audit guide and exposed trust information principles criteria, including reporting using maturity models); and an education session on blockchain technology and possible financial transaction and reporting implications.