

# AUDITING STANDARDS BOARD (ASB)

## Meeting Highlights

May 15-18, 2017

CHICAGO, IL

### 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

#### Observers and Guests

Denny Ard, *Dixon Hughes (5/17-18)*

Sally Ann Bailey, *Deloitte & Touche LLP*

Adam Barrow, *EY LLP*

Rick Call, *Thompson Reuters*

Jim Dalkin, *GAO*

Brian Collins, *Baker Tilly Virchow Krause (by phone 5/17)*

Liz Gantnier, *Dixon Hughes (5/18)*

Harrison Greene, *FDIC*

Bridget Gyofri, *KPMG LLP*

Kathy Healy, *PwC LLP*

Vicki Hellenbrand, *Baker Tilly Virchow Krause, LLP*

Jan Herringer, *BDO (5/15-16 )*

Susan Jones, *KPMG LLP*

Sara Lord, *RSM LLP*

Nigyar Mamedova, *NASBA*

Maria Manasses, *Grant Thornton (5/15 only)*

Laura Schuetze, *Grant Thornton*

Elizabeth Sloan, *Grant Thornton*

Chris Smith, *BDO*

David Steimel, *EKS&H, LLP*

Dan Voogt, *Grant Thornton*

Walker Wilkerson, *CliftonLarsonAllen*

Joseph Wolfe, *AON*

#### AICPA Staff

Amanda Black, *Content Development*

Linda Delahanty, *Audit & Attest Standards*

Mike Glynn, *Audit & Attest Standards*

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards*

Laura Hyland, *Governmental Audit & Attest*

Kristy Illuzzi, *PCPS Technical Issues Committee*

Chuck Landes, *Professional Standards*

Teighlor March, *Assistant General Counsel (by phone)*

Dorothy McQuillken, *Assurance & Advisory Innovation* (by phone 5/17)

Andy Mrakovcic, *Audit & Attest Standards*

Dan Noll, *Accounting Standards* (5/16-17 only)

Judith Sherinsky, *Audit & Attest Standards*

## Chair's Report

Mr. Santay reported on recent meetings with the PCAOB and GAO and the AITF. Mr. Dalkin described proposed revisions to the Yellow Book. Mr. Landes reported on interpretations under development addressing reporting under the appropriate GAAP.

January and February highlights were approved.

### 1. Auditor Involvement with Exempt Offering Documents.

Mr. Smith led a discussion of a revised draft of a Proposed Statement on Auditing Standards (SAS), *Auditor Involvement with Exempt Offering Documents*, addressing comments the Board provided at its January 2017 meeting. The Board affirmed that the scope of the proposed SAS should include both franchise offerings and securities exempt from registration under the Securities Act of 1933. The Board also clarified the nature of some of the triggers to involvement as well as the objective of subsequent events procedures within the context of the proposed SAS. Members provided several editorial comments. The ASB voted unanimously to ballot for issuance the proposed SAS as a final standard (to be issued as SAS No. 133). The final standard will be effective for exempt offering documents with which the auditor is involved that are initially distributed, circulated, or submitted on or after June 15, 2018.

### 2. Convergence

Jan Herringer, chair of the Convergence Task Force, let the ASB in a discussion of the agenda materials.

The ASB's Strategic Plan calls for convergence with the standards of the IAASB and avoidance of unnecessary differences with the standards of the PCAOB. Since the ASB completed its auditing standards clarity project, the PCAOB has issued three auditing standards — AS 16, *Communication With Audit Committees*, AS 17, *Supplementary Information*, and AS 18, *Related Parties* — which the ASB has not yet considered to determine if unnecessary differences exist.

#### *Overall Comments*

Ms. Herringer reviewed the criteria for considering differences. ASB members noted the difficulty of this strategy and the strategy of converging with IAASB standards when IAASB and PCAOB standards diverge. The deciding consideration is what will improve the standards and help reduce audit failures.

The ASB directed that the references be updated to the new PCAOB Codification. The PCAOB Conforming amendments will be brought to the ASB at the next meeting.

#### AS 18, *Related Parties*

- Issue A – The ASB directed that the proposed amendment to paragraph A14X instead be a requirement applicable to the entity’s control process, and to add guidance to the proposed amendments to paragraphs A15 and A52 that these inquiries can be made when inquiring about fraud.
- Issue B, no changes to the proposed amendment
- Issue C, no changes to the proposed amendment
- Issue D, change company to entity; change *intercompany* to *within the reporting entity* [? Check with Jan]
- Issue E, add “summaries of actions of recent meetings for which minutes have not yet been prepared”; reconsider in which to place the insertion converging with AS18-14 – it might be best placed in par. 21 as further audit procedures responsive to the risk.

#### AS 16, *Communication With Audit Committees*

Mr. Montgomery explained that the IAASB considered AS16 when proposing amendments to ISA 260, *Communication With Those Charged With Governance*, as part of its Auditor Reporting project. The ASB agreed to consider the amendments proposed by the Convergence Task Force as part of the ASB discussion on agenda item 3.

The ASB discussed the proposed amendment to paragraph .A42 to add application material suggesting communication of all matters required to be communicated by this section, at least orally if not in writing, prior to the release of the auditor’s report. The ASB directed that this amendment not be proposed but that the exposure draft should describe this difference and ask respondents if the timing of communications required by AU-C section 260 should be revisited.

#### AS 17, *Supplementary Information*

- Issue A, amendment to align with AS-17, par. 7-8: the ASB directed that paragraph 13 of AU-C section 725 be amended rather than paragraph 14 as proposed by the Convergence Task Force.
- Issue B, amendment to auditor’s report, AU-C 725, par. 09; the ASB accepted the proposed amendment and further suggested that bullet d of paragraph .09 be amended to include a reference to testing the completeness and accuracy of the supplementary information.
- Issue C, amendment to align with AS-17 paragraph 15; the ASB directed that the proposed amendment to AU-C 725, par. A17, say “the auditor is permitted to express an opinion on only those schedules” instead of “the auditor may express an opinion only on those schedules”.

#### *Disclosures*

The ASB also discussed convergence with the IAASB's recent ISA, *Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments*. The ASB considered whether to define “incorporated by reference” for purposes of GAAS and concluded the definition was not necessary.

The ASB reviewed the proposed amendments through ISA 240, and directed the Task Force to delete the phrase “too much immaterial information” in paragraph A13 of AU-C 240 because of concerns about the litigious environment in the USA. However, it was noted that this phrase aligns with IFRS disclosure framework.

### 3. Auditor's Report

Mr. Montgomery, chair of the Auditor Reporting Task Force, led the ASB in a discussion of proposed revisions to AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, and AU-C section 260, *The Auditor's Communication With Those Charged With Governance*. The proposed revisions reflect convergence with the new and revised reporting standards issued in 2015 by the International Auditing and Assurance Standards Board (IAASB). In addition, the ASB discussed certain issues relating to the proposed revisions to AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, to provide the task force with guidance when converging with ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*. The ASB also discussed proposed amendments to various AU-C sections, including requirements and guidance relating to the auditor's report in SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Going Concern*.

The ASB provided the task force with the following feedback:

*Proposed SAS, Modifications to the Opinion in the Independent Auditor's Report (Agenda Item 3A)*

- Paragraph 13(b) — change “gravity” to “severity”
- Paragraph 29(c) — reconsider whether the statements about auditor independence and other ethical responsibilities should be required when issuing a disclaimer of opinion.
- Paragraph A14 — consider whether the paragraph should focus on insufficient audit evidence or better explain the intent of the paragraph
- Paragraph A17 — consider including content from ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* that addresses situations when the auditor expresses an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, expresses an adverse opinion on the same financial statements under a different financial reporting framework
- Paragraph A28 — retain this guidance but consider the placement of this material, and provide further explanation to the ASB about why this was included as part of the clarity changes

- Paragraph A31 — consider whether the content in this paragraph is appropriate given that it addresses accounting considerations

*Proposed SAS, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report (Agenda Item 3B)*

- Paragraph A4 — consider whether the list of examples should include early application (where permitted) of a new accounting standard that has a material effect on the financial statements (consistent with ISA 706 Revised)
- Paragraph A8 — remove paragraph A8 from the proposed SAS because it is not necessary and creates confusion.

*Proposed SAS, The Auditor’s Communication With Those Charged With Governance (Agenda Item 3C)*

- Paragraph 18 — consider including discussion in the explanatory material of the exposure draft about what is “timely” communication and whether this communication should be required to occur before the report is approved for issuance.
- Paragraph A21 — consider whether any items in the list should be elevated to a requirement or consider strengthening the lead in wording to convey the importance of communicating these items
- Paragraph A27 — consider whether this paragraph is sufficiently framework neutral

*Agenda Item 3 – Cover Letter and Issues Paper*

*Proposed SAS, Forming an Opinion and Reporting on Financial Statements*

*Issue 1 – Addressee*

The ASB directed the task force to converge with ISA 700 (Revised) and to request feedback, through the exposure draft, regarding the inclusion of the city and state of the client as part of the addressee.

*Issue 2 – Relevant Ethical Requirements*

The ASB supported the content in the proposed SAS and asked the task force to consider providing further guidance to clarify that it relates to complying with the fundamental principles.

*Issue 3 – Auditor’s Report Prescribed by Law or Regulation*

The ASB agreed with the wording of the proposed SAS as currently drafted and directed the task force to include a discussion of this topic in the issues for consideration section of the exposure draft.

*Issue 4 – Dual reporting*

The ASB agreed with the current direction of the proposed SAS and asked the task force to include application material to clarify that the expectation that a single auditor's report would be issued for audits conducted in accordance with the auditing standards of the PCAOB and GAAS when the audit is not within the jurisdiction of the PCAOB.

#### *Proposed SAS, Modifications to the Opinion in the Independent Auditor's Report*

##### *Issue 5 – Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Proposed AU-C section 705)*

The ASB agreed that the proposed SAS should converge with ISA 705 (Revised).

Mr. Morrison presented the proposed amendments to SAS 132 to align it with the revised auditor's report. The most significant change suggested by the ASB was to eliminate illustration 4 which illustrates an adverse opinion. This is because the ASB expressed concern that the assumptions did not clearly differentiate between a modified opinion and an adverse opinion. ASB members suggested a few other editorial changes.

The ASB will continue to discuss auditor reporting at the July 2017 ASB meeting, with the intent to vote to ballot an exposure draft relating to the auditor reporting standards.

#### **4. Non-assertion-based engagements**

The ASB was asked to review and provide feedback on the following proposed attestation standards:

- A proposed revision of AT-C section 105, *Concepts Common to All Attestation Engagements*, to make it applicable to both assertion-based and non-assertion based engagements
- A proposed attestation standard that addresses non-assertion based examination and review engagements
- A proposed attestation standard that addresses selected procedures engagements

#### Current status of the project

Mr. Santay advised the ASB that, while two separate task forces were established to develop the proposed standards, the Selected Procedures Task Force was significantly ahead of the Direct Engagements Task Force. This prompted staff, with the consent of the Chair, to take over the development of the proposed revisions to AT-C section 105 and the proposed standard that addresses non-assertion based examination and review engagements.

The Selected Procedures project is a joint effort with the ARSC.

#### Rationale for the project

The ASB discussed the background and rationale for developing non-assertion-based engagements. While the International Standards on Attestation Engagements (ISAEs) allow for two types of engagements, 1) when the responsible party measures or evaluates the subject matter against the criteria and 2) when the responsible party does not measure or evaluate the subject matter against the criteria, SSAE #18 only allows for the first type of engagement. When SSAE #18 was developed, the ASB did not use the ISAEs as a base because the IAASB attestation project was not complete at the time that the ASB was developing it. The ISAEs do not use the term *assertion*; instead ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, allows for attestation engagements, in which a party other than the practitioner measures the subject matter against suitable criteria, and direct engagements, in which the practitioner measures as part of the engagement.

The need for both types of engagements, arises from the difficulty, in certain types of engagements, in having the responsible party measure or evaluate the subject matter. Some clients are unwilling or feel unable to appropriately measure or evaluate and therefore they cannot provide an assertion. For example, when the engaging party and the responsible party are not the same, the responsible party may be unwilling to provide the assertion because they are not the engaging party, and the engaging party may be reluctant to provide the assertion because they did not perform the measurement of the subject matter. In smaller entities, often management does not have the ability or competence to perform the necessary measurement; but they are willing to accept responsibility for the subject matter and for the appropriateness of the criteria. This is a situation that many small and medium-size firms often face.

In addition, the concept of a non-assertion based engagement is already included in SSAE 18 as a reporting requirement (that is, when the responsible party is not the engaging party and refuses to provide an assertion, the practitioner is required to disclose that refusal in the practitioner's report and restrict the use of the report to the engaging party, but need not withdraw from the engagement).

The ASB was asked to consider a proposal to create two new sections in the codification of the attestation standards – AT-C section 501 would cover non-assertion based examinations and reviews and AT-C section 601 would cover selected procedures. The draft of proposed AT-C section 501 uses the Canadian direct engagements standard as a base. AT-C section 105 would be revised to address concepts common to all attestation engagements, including the proposed non-assertion based engagements.

Each ASB member provided their reactions to the proposed direction of the project to develop both types of engagements and their views as to whether both engagements should be addressed in the same standard or in separate standards. The majority supported going forward with the project to develop a single examination standards and a single review standard that would provide for the practitioner to perform either type of engagement. Reactions included the following:

- Adopting direct engagements will provide better convergence with international standards.
- Focus on who does the measuring, not whether an assertion has been obtained.
- Many jurisdictions around the world see greater value in the direct engagement as the measuring is done by a competent and independent practitioner.

- Concern about the independence implications of the practitioner “measuring first” and whether that would be a separate non-attest service or part of attest engagement?
- Concern that if an assertion is not obtained, more work would be necessary to obtain sufficient appropriate engagement evidence necessary for the desired level of assurance.
- Desire for the report to clearly distinguish when a direct engagement has been performed.
- Discussion as to whether some subject matters, such as internal control or compliance, are inappropriate for direct engagements.
- The value, or lack thereof, of an assertion as defense in legal actions against the practitioner.
- Since the practitioner’s responsibility is the same regardless of whether the responsible party measures or doesn’t measure the subject matter, that is the practitioner needs to obtain reasonable assurance (in an examination) or limited assurance (in a review), then it makes the most sense to have a single standard for each level of assurance as compared to two standards for one level of assurance.

The majority of the ASB supported revising existing AT-C sections 205, *Examination Engagements*, and 210, *Review Engagements*, rather than creating new AT-C sections. When the proposed revisions are presented to the ASB, the ASB will not be precluded from considering other revisions to the extant standards.

Mr. Fleming, chair of ARSC, stated that ARSC is not opposed to non-assertion-based standards, and would prefer that AT-C section 210 be revised rather than develop a separate standard. ARSC is willing to assist in revising AT-C section 210.

#### Selected Procedures

Mr. Ard led the ASB through a draft of the proposed Selected Procedures standard. The ASB directed that:

- The standard be clear that *users* are responsible for determining whether the procedures performed are sufficient for their purpose.
- The Task Force consider whether there is any guidance in AT-C section 215, *Agreed-Upon Procedures Engagements*, with respect to materiality that could provide useful guidance in the proposed Selected Procedures standard.
- The report clearly state when the responsible party accepts responsibility for the sufficiency of the procedures performed.
- The requirement with respect to restricting the use of the report when the engagement is also performed in accordance with *Government Auditing Standards* be revised so that it is consistent with the requirement in AU-C section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*.
- An illustrative report be presented that includes an identification of the criteria used.



[Note: there were no agenda items 5 or 6.]

## 7. Other Information

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

- The proposed standard should include application guidance that makes clear that other standards include requirements with respect to information contained in documents other than the annual report.
- The draft wrap document should clearly communicate that the proposed standard would result in a change in practice regarding consideration of documents received after the date of the auditor's report on the financial statements.
- With respect to the issue of omitted information, the application guidance should be clear that omitted information may result in a fundamentally misleading impression of the entity's financial position, results of operations, or cash flows. A discussion point should be included in the draft wrap document to highlight the issue for potential commenters.
- With respect to the group auditor's responsibilities, the proposed application guidance should more clearly state that the group auditor's knowledge does not go beyond that obtained during the group auditor's audit.
- The ASB agreed with the proposed application paragraph providing guidance when the auditor becomes aware that the entity issued other information without providing the auditor with a final version before issuance. The ASB does not believe that additional communication to users of the auditor's report should be required if the auditor identifies in the auditor's report other information that the auditor expected to receive as of the date of the auditor's report and such information is never received.

## 8. Estimates

The ASB discussed the IAASB ED, ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, and provided

Ms. Kassman led the discussion of the recently released Exposure Draft by the International Auditing and Assurance Standards Board (IAASB), proposed International Standard on Auditing

540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ED 540). The objective of the discussion was to solicit the ASB's input for development by the Estimates Task Force of the AICPA's comment letter on the exposure draft. The ASB members expressed concern about the following aspects of ED 540:

- How the risk assessment will be operationalized.
- The interrelationship between the proposed strategies when the assessment of inherent risk is low and the overall procedures when inherent risk assessment is not low.
- The level at which the auditor procedures will be applied, that is, at the account level or the assertion level.
- The proposed ISA seems to be overly complex and overengineered.
- Although the standards allow for a combined assessment of risk of material misstatement, ED 540 will force auditor to make a separate assessment of inherent risk.

A draft of the comment letter will be discussed at the next ASB meeting.

Mr. Landes provided a brief update on other projects of the IAASB.