

AUDITING STANDARDS BOARD (ASB)
Meeting Highlights
July 21-23, 2015
Englewood, CO

MEETING ATTENDANCE

ASB Members

Bruce Webb, *Chair*
Hunter Cook
Gerry Boaz
Jack Fuchs
Liz Gantnier
Steve Glover
Jennifer Haskell
Dan Helva
Sandra Johnigan
Ilene Kassman (by phone and represented by Susan Jones)
Ryan Kaye
David Miller
Don M. Pallais
Marc Panucci
Josh Partlow
Rick Reisig
Mike Santay
Catherine Schweigel
Chris Smith

AICPA Staff

Amanda Black, *Portfolios*
Linda Delahanty, *Audit & Attest Standards*
Mike Glynn, *Audit & Attest Standards*
Ahava Goldman, *Audit & Attest Standards*
Hiram Hasty, *Audit & Attest Standards*
Chuck Landes, *Professional Standards*
Teighlor March, *Assistant General Counsel* (by phone)
Richard Miller, *Special Counsel*
Andy Mrakovcic, *Audit & Attest Standards*
Judith Sherinsky, *Audit & Attest Standards*

Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Sally Ann Bailey, *Deloitte & Touche LLP*
Jim Dalkin, *GAO (7/23 only)*
Ian Dingwall, *Department of Labor (7/21 only)*
Courtney Drake, *Ernst & Young LLP*
Harrison Greene, Jr., *Federal Deposit Insurance Corporation*
Joseph Griffin, *PricewaterhouseCoopers LLP*
Jan Herringer, *BDO*
Susan Jones, *KPMG LLP*
John Keyser, *McGladrey LLP*
Steve Lowery, *GAO*
Lynne McMennamin, *U.S. Department of Labor (7/21 only)*
Tammy Mooney, *Thompson Reuters*
Paul Penler, *Ernst & Young LLP*
Beth Schneider, *Deloitte & Touche LLP*
Darrel Schubert (7/21 only)
Laura Schuetze, *Grant Thornton*

Chair's Report

Mr. Webb and Mr. Landes reported on matters of interest to the ASB. Mr. Hasty stated that the PCAOB is seeking feedback from smaller firms on its proposals on specialists.

The ASB approved the highlights of the May 2015 meeting. Ms. Goldman stated that going forward, highlights of the meetings will be approved through email unless there was a dissenting vote to a final standard at the meeting. She also noted that the dates for the May and July 2016 meetings have been changed.

1. Reports on ERISA Audits

Representatives of the Employee Benefits Security Administration of the U.S. Department of Labor discussed the results of the EBSA report *Assessing the Quality of Employee Benefit Plan Audits*, and their ideas for improving the auditor's report for employee benefit plans.

Darrel Schubert, chair of the EBP Auditor Reporting Task Force, led the ASB in a discussion of the issues relating to developing an auditor's report specific to employee benefit plans.

The ASB supported the development of a new auditing standard to address the form and content of the auditor's report for employee benefit plans. The ASB asked the task force to consider whether there is a need to also revise the performance standards related to compliance aspects of employee benefit plan audits to help with audit quality. Mr. Schubert noted that the task force plans to discuss compliance reporting and will bring this to the ASB at a future meeting.

Issue 1 — Addressee

The ASB expressed concern with addressing the report to the participants and beneficiaries. The chair of the ASB asked the members of the ASB to discuss this issue with their firm's legal counsel. This topic will be discussed at a future ASB meeting.

Issue 2 — Emphasis-of-Matter Paragraphs

The ASB agreed that the task force should not consider including key audit matters in the auditor's report for employee benefit plans prior to the discussions by the ASB as part of the broader auditor reporting project.

The ASB agreed with the concept set forth by the task force that the addition of EOM paragraphs in the EBP auditor's report could be required when those items are required to be disclosed in the notes to the financial statements and when in the auditor's professional judgment it is of such importance that it is fundamental to users' understanding of the financial statements. The ASB asked the task force to reconsider the three examples included in the issue paper as they felt those items did not meet the concept as set forth above. The ASB also asked the task force to consider examples that could be included provided they meet the criteria and are specific to employee benefit plans.

The task force was asked to consider the use of other-matter (OM) paragraphs in the auditor's report that could discuss some best practices of what auditors do in an employee benefit plan audit. The ASB discussed that OM paragraphs do not need a related disclosure in the notes to the

financial statements. This approach would enable the auditor to create a more free form report that provides more transparency into the audit. This could be achieved by including application guidance that points out areas that the auditor might consider including in an OM paragraph.

Issue 3 — Expanded Management’s Responsibilities (Full Scope Auditor’s Report)

The ASB supported the addition of additional management responsibilities specific to EBP auditor’s reports. The ASB supported the addition of “maintaining records with respect to each of the employees sufficient to determine the benefits due or which may become due to such employees.” The ASB expressed some concerns with how the task force should determine what to include here. The ASB asked the task force to:

- Consider only including items that are specific to employee benefit plans
- Consider revising the title of the section because certain of the suggested changes are related to laws and regulations and may not be related to responsibilities for the financial statements
- Consider including references, whether to GAAP or DOL rules and regulations to support the inclusion of the new management’s responsibilities
- Consider deleting “the estimation methods and assumptions used in measuring investment information reported or disclosed at fair value” because this goes beyond employee benefit plans. The task force was asked to consider whether the estimation methods and assumptions for the pension obligation and OPEB should be included
- Consider limiting the proposed addition that says “administering the plan and determining whether the plan is in compliance with Department of Labor Rules and Regulations” to financial reporting, because as drafted this item could imply that the auditor is responsible for auditing compliance with everything in the DOL’s rules and regulations, even those items that are not related to financial reporting
- Consider the implications for the engagement letter and management representation letter
- Consider whether there are compliance items with the IRS and PBGC that need to be considered, and the implications for considering those

Issue 4 — Reporting on Supplemental Schedules and Expansion to Include Form and Content (Full Scope Auditor’s Report)

The ASB supported expanding the other-matter paragraph included in the full scope auditor’s report for an employee benefit plan audit relating to the supplemental schedules (in accordance with AU-C section 725), to include that the auditor performed procedures to test the completeness and accuracy of the information presented in the supplemental schedules and that in forming the opinion on the supplemental schedules, the auditor evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

The ASB supported including a report on the form and content of the supplemental schedules.

The ASB asked the task force to change the wording of the form and content opinion for both the full scope and limited scope auditor's report to say that the form and content is presented in "conformity with" rather than "compliance with" the DOL Rules and Regulations.

Issue 5 — Revised Introductory Paragraph (ERISA Limited Scope Auditor's Report-Disclaimer of Opinion)

The ASB supported revising the introductory paragraph of the standard limited scope auditor's report to explain what the auditor has been asked to do.

The ASB directed the task force to include in the introductory paragraph the auditor's responsibilities for such an audit.

Issue 6 — Expanded Management's Responsibilities (ERISA Limited Scope Auditor's Report- Disclaimer of Opinion)

The ASB supported including the additional items in management's responsibilities for a limited scope audit. The members of the ASB also suggested:

- including that management chose the limited scope audit (that they are not required to have a limited scope audit but that this was their choice and it is management's responsibility to determine whether a limited scope audit is appropriate).
- expanding the item on investments to include that they are measured in accordance with GAAP (rather than just fair value).

Issue 7 — Revised Auditor's Responsibilities (ERISA Limited Scope Auditor's Report-Disclaimer of Opinion)

The ASB supported revising the auditor's responsibilities section to better reflect what the auditor does in an ERISA limited scope audit.

The ASB found the words confusing and asked the task force to reconsider this section and include some of this information in the introductory paragraph. This section should be linked to the introductory paragraph and use a more positive tone.

The ASB asked the task force to consider including a caveat for the certified information in the section that says "An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements."

Issue 8 — New Section "Report on the Significant Accounts and Disclosures and Certified Information" (ERISA Limited Scope Auditor's Report- Disclaimer of Opinion)

The ASB did not support, on the basis that these issues are not unique to EBP audits, the task force's proposal to

- include a new section in the auditor's report, as an other-matter paragraph, to explain that, except for the certified information, as part of the audit the auditor subjected the material accounts and disclosures to audit procedures, and to identify the material accounts.
- include information about the procedures the auditor performed on the certified investment information.

The ASB asked the task force to consider whether the revisions to the introductory paragraph will address what this section was intended to. The task force may want to make clear in the introductory paragraph that everything else (other than what was certified) was audited.

The ASB suggested that the task force can include in the application guidance what is audited and what is not audited in a limited scope audit.

Issue 9 — Other Matter — Report on Form and Content (ERISA Limited Scope Auditor's Report- Disclaimer of Opinion)

The ASB supported aligning the limited scope auditor's report with the full scope auditor's report and present the form and content opinion as an other-matter paragraph, rather than treat as a report on other legal and regulatory requirements.

Issue 10 — Revised Auditor's Responsibilities (Qualified Opinion); Issue 11 — New Section on Certified Information (Qualified Opinion); and Issue 12 — Reporting on Supplemental Schedules and Expansion to Include Form and Content (ERISA Limited Scope Auditor's Report Qualified Opinion)

The ASB discussed the differences between a qualified opinion and disclaimer of opinion. The ASB supported the development of a standard that would address the form and content of the standard limited scope auditor's report. By developing a new standard the task force can create a reporting model specific to fit the circumstances of a limited scope engagement.

The ASB noted that the EBP limited scope report is unique and challenged the task force to think about the unique differences and how one might report in a situation when the auditor does not test completeness or valuation of the investments but think about the concept that the certification is evidence and determine to what extent the auditor can rely on it to form his or her conclusions.

This topic will be discussed by the ASB at a future meeting.

2. PCAOB Reports

The ASB voted unanimously to ballot for issuance an exposure draft of Proposed Statement on Auditing Standards (SAS), *Amendment to SAS No. 122 section 700, Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 700). The amendments provide requirements and guidance for reporting on an audit conducted in accordance with both GAAS and the standards of the PCAOB.

The ASB requested that the exposure draft be sent to the SEC for their consideration concurrently with the balloting of the exposure draft with the ASB. The ASB requested a comment period of 45 days so that the standard could be issued by year end, when certain regulations requiring an audit conducted in accordance with the auditing standards of the PCAOB for audits not subject to the jurisdiction of the PCAOB become effective. A meeting of the ASB via conference call may be necessary to discuss comments received and vote to ballot for issuance.

The ASB made the following changes to the draft standard before voting:

- In paragraph 44, eliminated the option to use the reporting requirements set forth in AU-C section 700, amended to indicate that the audit was also conducted in accordance with PCAOB auditing standard, thus requiring the use of wording and layout of the PCAOB report, appropriately amended, in the circumstances when the requirement applies.
- Moved the examples of audits of entities that may be affected by the subject of this amendment to paragraph .A45 from paragraph .A43.
- Replaced paragraph .A44 with revised wording that distinguishes between the auditing standards of the PCAOB and the other standards of the PCAOB, such as the independence standards.

3. Audits of Internal Control Over Financial Reporting

The ASB voted to ballot for issuance as a final standard proposed SAS *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*. AT Section 501, *An Examination of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*, will be withdrawn when the SAS is issued, as the new SAS moves the requirements and guidance to the auditing standards. The new SAS will be effective for integrated audits for periods ending on or after December 15, 2016.

The ASB requested that staff add consideration of the consistent use of the terms “internal control” and “internal control over financial reporting” to its project to consider the consistent use of certain terms in GAAS.

The ASB discussed whether to revise the requirement that failure to obtain a written assertion limits the scope of the auditor’s work in an audit of a non-issuer and results in a disclaimer of opinion. Mr. Landes stated that the failure to obtain a written assertion is indirect evidence (as compared to limiting evidence) that the entity may not have applied the monitoring element effectively, which could lead the auditor to conclude that the ICFR is ineffective due to a

material weakness in the monitoring element, and therefore an adverse report would be the appropriate response. After discussion, the ASB concluded not to revise the requirements.

The ASB discussed but did not change the following:

- The requirement that the auditor withdraw from the engagement if a written assessment is not obtained.
- The amendments to AU-C section 265 to add the words “over financial reporting” to the definition of *deficiency in internal control*

The ASB made the following changes to the draft standard before voting:

- Added a reference to the FDIC in par. A1
- Deleted the phrase “and if so, whether all have been identified” from par. 4a
- Changed par. A4, A5, A38 to follow the wording and order in COSO more closely
- Added application material to par. 62 noting that the written communication forms part of the final audit file, consistent with the guidance in paragraph A16 of AU-C section 265
- Par. A110, specified that the other-matter paragraph is required by GAGAS
- Editorial change to par. 80
- Par. 86, deleted the phrase “the reasonableness of management's conclusion to limit its assessment and”
- Appendix D, made editorial revisions suggested by Harrison Greene.

4. Service Organizations

Joe Griffin, Chair of the Service Organizations Task Force, led the ASB in a discussion of a draft of proposed SSAE, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities Internal Control Over Financial Reporting: Clarification and Recodification*, which when finalized will be chapter 8 of the clarified attestation standards. A vote to ballot the draft for issuance as a final standard was deferred to the October ASB meeting.

The ASB discussed an analysis of how the differences between the requirements in extant AT section 801 and International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*, identified in exhibit B of extant AT section 801, would change under proposed chapter 8. The differences identified in exhibit B would continue to be differences under proposed chapter 8. New differences would arise because extant AT section 801 includes many of the paragraphs in ISAE 3402 that address using the work of internal auditors. In the clarified attestation standards, most of the paragraphs on using the work of internal auditors are in chapter 2 and are different from those in AT section 801, and therefore also different from those in ISAE 3402.

During its discussion, the ASB recommended that the following changes be made to the draft:

- Move paragraph 8.37 to follow paragraph 8.2.
- Throughout the document change “errors” and “errors and omissions” to “misstatements.”
- In the definition of “deficiency in internal control” in paragraph 8.7(f), delete the words “errors that could result in” and move the words “on a timely basis” to follow the word “correct.”
- Use the same terms for the components of internal control as are used in the COSO 2013 Integrated Framework.
- Delete paragraph 8.A10.
- In paragraph 8.10, determine whether all of the requirements in chapter 8 are applicable to a subservice organization when the inclusive method is used, and revise the paragraph as needed.
- In paragraph 8.A20 replace “issuance of a single service auditor’s report that includes both entities” with “use of the inclusive method.”
- In the first sub-bullet of paragraph 8.A39, insert the words “by the service organization” after the word “provided.”
- Revise the first bullet in paragraph 8.25(a) as follows:
 - obtaining an understanding of management’s process for documentation of its identifying~~identification of~~ and evaluating the risks that threaten the achievement of the control objectives and assessing the completeness and accuracy of management’s identification of those risks
- Move the first sentence of paragraph 8.43 to a separate paragraph that follows paragraph 8.31 (new paragraph); delete the word “additionally” from the second sentence and revise the second sentence to read, “In addition to the communication responsibilities in chapter 2, if the service auditor becomes aware of the matters identified in [new paragraph] the service auditor should determine whether this information has been communicated appropriately to affected user entities.”
- After paragraphs 8.38(c) and 8.39(c) add the following required report element:
 - A statement that the controls and control objectives included in the description are those that management believes are likely to be relevant to user entities’ internal control over financial reporting and that the description does not include those aspects of the system that are not likely to be relevant to user entities’ internal control over financial reporting

Also revise the relevant paragraphs in the illustrative reports in exhibit A to align with the language in this report element.

- At the end of the sentence in paragraphs 8.38(l)(i) and 8.39(l)(i), add the words, “or internal control over financial reporting.” Make the same change to the illustrative reports in exhibit B.
- Move the bullet in paragraphs 8.38(o)(i) and 8.39(o)(i) to follow the bullet in paragraphs 8.38(o)(iii) and 8.39(o)(iii), respectively.
- In paragraph 8.A66, delete the following words: “When internal auditors have provided direct assistance to the service auditor under the service auditor’s direction, supervision, and review.”
- In paragraph 8.A67, move the words “Other than the description of the work of the internal audit function referred to in paragraph **Error! Reference source not found.**(j)(v)” from the end of the paragraph to the beginning of the paragraph.

5. Other Information

Due to time constraints, this agenda item was not discussed.

6. Sustainability

Beth Schneider, chair of the ASB Sustainability Task Force (Task Force) which is drafting a proposed standard for attestation engagements on sustainability information, led the ASB in discussing the Task Force’s recommendation that the attestation standards include a requirement for auditors to consider the adequacy of disclosures in the subject matter or assertion. After discussion, the ASB asked the Attestation Task Force to consider a disclosure-related requirement in the attestation standards with more limited boundaries than had been proposed. Such a requirement might require auditors to evaluate whether additional disclosures beyond those required by the criteria are necessary to prevent the presentation from being misleading. The Attestation Task Force will develop the wording of the requirement and bring it to the ASB in October as part of the attestation standards (see agenda item 7).

The discussion included the following:

- Some objection to the language proposed for new paragraph 1.A46; specifically, to the phrase “necessary for the responsible party to provide disclosures beyond those specifically required by the criteria”. Members didn’t believe that the measurement uncertainty example was appropriate because it was unclear what exactly was meant by “measurement uncertainty” and what about measurement uncertainty would need to be disclosed. There were further questions as to how any disclosure requirements with respect to measurement uncertainty would be applied to internal control or compliance attestation engagements.

- Concern that the language proposed to be added to paragraphs 2.59 and 3.42 of “whether disclosures are informative of matters that affect the use, understanding and interpretation of the subject matter or assertion” was too open-ended and would cause the practitioner to assume boundless responsibility (and ultimately run the risk of the practitioners being second guessed as to why they didn’t come to the conclusion that disclosures regarding other matters should have been included but weren’t).
- Whether the criteria are suitable without specific disclosure requirements.
- That the evaluation of whether the subject matter provides adequate disclosures is made in the context of the engagement and the objective of the criteria, and that the practitioner should be aware what that is; it could be further caveated with that it is “in the professional judgment of the practitioner”, which might also be used as a boundary. Others challenged what the “objectives of the criteria” really meant and pointed out that such a concept is not currently used or referenced in any manner.
- The concept of fair presentation was also discussed; however, fair presentation in the auditing standards relates to the financial reporting framework, all of which in the US are fair presentation frameworks. The attestations standards would have to define what fair presentation means in terms of attest situations, which is not viable given the range of possible attest engagements.

7. Attestation Standards

The ASB discussed one issue related to the exposure draft of July 24, 2013 entitled *Attestation Standards: Clarification and Recodification* (ED) that clarifies AT sections 20, 50, 101 and 201 of Statements on Standards for Attestation Engagements (attestation standards), and the exposure draft on January 28, 2014 entitled *Subject-Matter Specific Attestation Standards: Clarification and Recodification* that clarifies AT sections 301, 401, and 601 of the attestation standards. The various AT sections of the proposed clarified attestation standards are referred to as chapters in the exposure draft. However, the chapters will be assigned section numbers when the standards are issued and codified.

The ASB discussed the effect of the responsible party’s refusal to provide a written assertion on the practitioner’s ability to express an opinion. Paragraph 1.2 of the July 2015 draft of chapter 1, “Concepts Common to all Attestation Engagements,” of the proposed attestation standards indicates that (1) an attestation engagement is predicated on the concept that a party other than the practitioner makes an assertion about whether the subject matter is measured or evaluated in accordance with the criteria, and (2) in an examination or review engagement, the responsible party’s refusal to provide such an assertion results in a scope limitation requiring the practitioner to withdraw from the engagement. In an agreed-upon procedures engagement, such refusal requires the practitioner to communicate that refusal in the practitioner’s report.

Chuck Landes, AICPA, Vice President Professional Standards and Services discussed his belief that if a practitioner is able to obtain sufficient appropriate evidence, the practitioner, using professional judgment, should be able to determine whether he or she is able to express an

opinion, even when the responsible party does not provide a written assertion. (A practitioner would not be required to express an opinion in such circumstances.)

After discussion, the ASB agreed to proceed with the attestation standards with no change to the requirement to request a written assertion. The ASB will discuss the most recent drafts of the proposed attestation standards at its October 2015 meeting.

8. Performance Standards

Jim Dalkin, Chair of the Performance Audit Task Force (Task Force), presented an update on the progress of the Task Force, which is developing a proposed examination level attestation standard similar to Canadian Standard on Assurance Engagements (CSAE) 3001, Direct Engagements. In a direct examination engagement, the practitioner is not required to request a written assertion from the responsible party (for example, management) about whether the subject matter is in accordance with the criteria. This differs from an examination engagement performed under chapter 2, “Examination Engagements,” of the proposed clarified attestation standards, which requires the practitioner to request such a written assertion from the responsible party.

The Task Force has been discussing whether a direct examination engagement should be market driven, in which case the client could elect to engage a practitioner to perform a direct examination engagement rather than an examination engagement under chapter 2, or whether a direct examination engagement should only be performed in specified circumstances, for example, when management is unable to provide a written assertion.

The Task Force will prepare a draft of a direct examination engagement attestation standard for discussion at the October 2015 ASB meeting.

9. Executive Session

The ASB discussed an issue relating to the attestation standards in executive session.