

**AUDITING STANDARDS BOARD (ASB)**  
**Meeting Highlights**  
**October 13-15, 2015**  
**New Orleans, LA**

**MEETING ATTENDANCE**

ASB Members

Bruce Webb, *Chair*  
Hunter Cook  
Gerry Boaz  
Jack Fuchs  
Liz Gantnier  
Steve Glover  
Jennifer Haskell  
Dan Hevia  
Sandra Johnigan  
Ilene Kassman  
Ryan Kaye  
David Miller (by phone 10/13 only)  
Don M. Pallais  
Marc Panucci  
Josh Partlow  
Rick Reisig  
Mike Santay  
Catherine Schweigel  
Chris Smith

AICPA Staff

Dave Arman, *Content Development*  
Linda Delahanty, *Audit & Attest Standards*  
Mike Glynn, *Audit & Attest Standards (10-13 only)*  
Ahava Goldman, *Audit & Attest Standards*  
Hiram Hasty, *Audit & Attest Standards*  
Chuck Landes, *Professional Standards*  
Teighlor March, *Assistant General Counsel*  
Richard Miller, *Special Counsel*  
Andy Mrakovcic, *Audit & Attest Standards*  
Judith Sherinsky, *Audit & Attest Standards (10/13-14 only)*  
Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Sally Ann Bailey, *Deloitte & Touche LLP*  
Dora Burzenski, *Deloitte & Touche LLP*  
Jim Dalkin, *GAO (10/13-14 only)*  
Courtney Drake, *EY LLP*  
Harrison Greene, Jr., *Federal Deposit Insurance Corporation*  
Joseph Griffin, *PricewaterhouseCoopers LLP*  
Bridget Gyofri, *KPMG LLP*  
Jan Herringer, *BDO*  
Susan Jones, *KPMG LLP*  
Tammy Mooney, *Thompson Reuters*  
Paul Penler, *Ernst & Young LLP*  
Darrel Schubert (10/14 only)  
Laura Schuetze, *Grant Thornton*

Erik Asgeirsson, *CPA.com (10/15 only)*  
Kalil Merhib, *CPA.com (10/15 only)*

## Chair's Report

Mr. Webb reported on matters of interest to the ASB, including the recent AITF meeting. Mr. Landes reported on matters of interest to the ASB.

# 1. Attestation Standards

The ASB discussed the proposed chapters of the clarified attestation standards, which were exposed for comment in the exposure draft *Attestation Standards: Clarification and Recodification* (ED) which clarifies AT sections 20, 50, 101 and 201 of Statements on Standards for Attestation Engagements (attestation standards), and in the exposure draft *Subject-Matter Specific Attestation Standards: Clarification and Recodification* which clarifies AT sections 301, 401, and 601 of the attestation standards.

The October 2015 draft of the proposed clarified attestation standards indicates that the responsible party's refusal to provide a written assertion in an examination or review engagement results in a scope limitation and that the practitioner should withdraw from the engagement in these circumstances. In an agreed-upon procedures engagement, such a refusal requires the practitioner to communicate that refusal in the practitioner's report.

## **Concerns expressed by AICPA Vice-President of Professional Standards**

Mr. Landes, AICPA Vice-President of Professional Standards, shared his concerns relating to the topic of an assertion in chapters 1 – 3. Mr. Landes believes that the proposed standards should not require the practitioner to withdraw from an examination or review engagement when the responsible party is unable or unwilling to provide a written assertion.

Mr. Landes believes that requiring a practitioner to withdraw from an engagement should not be based on a client's inability or unwillingness to perform certain internal measurement procedures (and accordingly not provide an assertion regarding the measurement). Rather than requiring withdrawal, Mr. Landes believes that the proposed standards should allow practitioners the ability to exercise their professional judgment by requiring the practitioner to consider the effects of the failure to obtain an assertion on the report; specifically whether the failure to obtain an assertion prevents the practitioner from obtaining sufficient evidence to form a conclusion about the subject matter.

Mr. Landes believes the usefulness of a practitioner's attestation report is that it provides an objective, independent conclusion about whether the practitioner believes the subject matter is in accordance with or based on the criteria, and that requiring a practitioner to withdraw from the engagement, in the circumstances set forth in the standards, deprives potential report users of the usefulness of a practitioner's independent conclusion.

## **Auditing Standards Board's response to the concerns expressed**

The Auditing Standards Board (ASB) discussed the concerns raised by certain ASB members and the AICPA VP, Professional Standards related to the proposed requirements in the attestation standards to obtain a written assertion. The ASB noted that the requirement to obtain a written assertion, whether or not the engaging party is the responsible party, had been subject

to the ASB's due process, including public exposure and comment. The ASB further noted that based on a review of comments received, the Attestation Task Force recommended retaining the requirement to obtain the assertion as part of the final standard. As part of the meeting discussion, several ASB members indicated that they shared the concerns expressed by Mr. Landes with respect to certain of the proposed requirements. In light of those views, the ASB agreed to revise the proposed standards to enable the practitioner to report on the subject matter in an examination or review engagement even if the responsible party refuses to provide a written assertion, if the responsible party is not the engaging party. In these circumstances use of the report would be restricted and the practitioner's report would state that the responsible party did not provide an assertion. Changes will be made to all of the chapters of the proposed clarified attestation standards to reflect this conclusion. The ASB discussed whether that the change would require re-exposure, and concluded re-exposure was not necessary, as it represented (1) a lessening of the requirement that was exposed; and (2) aligned to be closer with the previous requirements in the extant standards.

The ASB also recommended that the changes described below be made to the draft. The ASB scheduled a meeting to be held telephonically on November 23, 2015, to review these changes and to vote to ballot the chapters for issuance as a final standard.

#### Changes to All Chapters of the Proposed Clarified Attestation Standards

- Use the term "practitioner's report" rather than "attestation report" to refer to the report issued by the practitioner.
- Use the term "refusal" or "refuses" rather than "unwillingness" or "is unwilling" when discussing the responsible party's refusal to provide a written assertion.

#### Changes to Chapter 1, Concepts Common to All Attestation Engagements

- In the definition of "other practitioner" in paragraph 1.10s, revise the last sentence to state, "An other practitioner may be part of the practitioner's firm, a network firm, or another firm."
- Add a paragraph indicating that chapter 1 does not apply to performance audits performed pursuant to *Government Auditing Standards*, and that such engagements do not require an examination, review, or agreed-upon procedures report unless the practitioner who is engaged to conduct a performance audit is also engaged to conduct an AICPA attestation engagement or issues such a practitioner's examination, review, or agreed-upon procedures report.

#### Changes to Chapter 2, Examination Engagements and Chapter 3, Review Engagements

- Insert a paragraph such as the following after paragraph 2.A7 and 3.A7

As part of a nonattest service, a practitioner may assist the responsible party in measuring or evaluating the subject matter against the criteria in connection with the responsible

party providing a written assertion. Regardless of the procedures performed by the practitioner, the responsible party is required to accept responsibility for its assertion and the subject matter and may not base its assertion solely on the practitioner's procedures. <sup>fn</sup>

<sup>fn</sup> Section 1.295, "Nonattest Services," of the AICPA Code of Professional Conduct addresses the practitioner's provision of nonattest services for an attest client.

- In paragraph 2.50*f*, and 3.33*f* delete the words "as agreed upon in the terms of the engagement."
- In paragraph 2.61 and 3.44, insert the word "should" before the first use of the word "may" and delete the words "may report" after the word "or."
- Insert the following requirement and application paragraphs at the end of the section titled, "Forming the Opinion" ("Forming the Conclusion")

2.59A (3.42A). The practitioner should evaluate, based on the evidence obtained, whether the presentation of the subject matter or assertion is misleading within the context of the engagement.

2.A70 (3.A53). In making the evaluation required by paragraph 2.59A (3.42A), the practitioner may consider whether additional disclosures are necessary to describe the subject matter, assertion, or criteria. Additional disclosures may, for example, include

- the measurement or evaluation methods used when the criteria allow for choice among methods;
- significant interpretations made in applying the criteria in the engagement circumstances;
- subsequent events, depending on their nature and significance; and
- whether there have been any changes in the measurement or evaluation methods used.

2.A70B (3.A53B). Paragraph 2.59A (3.42A) does not require the practitioner to determine whether the presentation discloses all matters related to the subject matter, assertion, or criteria or all matters users may consider in making decisions based on the presentation.

### Changes to Chapter 2, Examination Engagements

- Revise paragraph 2.A3 to conform with the language in paragraph 2.3*a*
- In paragraph 2.13, add a reference to paragraph 2.21, which addresses further procedures.
- Move the words "in all material respects" to the end of paragraph 2.18*b*
- After the word "engagement" in paragraph 2.40, insert the word "including;" change "reperform" to "reperforming;" and delete the words "The practitioner should."
- Revise paragraph 2.48 to conform with the language in paragraph 3.31.

- Throughout the section titled “Using the Work of a Practitioner’s Specialist,” insert the word “external” before “specialist.”
- At the end of the lead-in in paragraph 2.A75, insert the words “the source of the criteria or the relevant matters discussed in paragraph 2.A78” and delete the bulleted items.
- At the end of paragraph 2.62e(ii), insert “based on the practitioner’s examination.”
- Add the phrase “in all material respects” to the first 3 bullets in paragraph 2.A78
- Add an application paragraph that incorporates the substance of Interpretation No 8 of AT 101, “Including a Description of Tests of Controls, or Other Procedures, and the Results Thereof, in an Examination Report,” and link it to paragraph 2.62g. (Item 5 in the discussion memo)
- Revise the first sentence of paragraph 2.83 to state, “The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws and regulations, uncorrected misstatements, and when relevant to the subject matter, internal control deficiencies identified during the engagement.”
- In the illustrative examination reports in paragraph 2.A112
  - revise the second line of the report in examples 1 and 5 to state “XYZ company’s management is responsible for [*identify the subject matter, for example, presenting the schedule of investment returns*] in accordance with [or based on] ...”
  - insert the word “presented” after the word “is” in the penultimate line of the illustrative report in example 1

### Changes to Chapter 3, Review Engagements

- Delete paragraph 3.A4a(ii) and incorporate paragraph 3.A4a(i) into item 3.A4a.
- In paragraph 3.A60, delete “and fair presentation.”
- At the end of paragraph 3.57, insert the words “unless prohibited by law or regulation.”
- After the word “control” in paragraph 3.A82, insert the words “identified during the engagement.”
- Revise the first sentence of paragraph 3.58 to state, “The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws and regulations, and uncorrected misstatements.”

### Changes to Chapter 4, Agreed-Upon Procedures Engagements

- In paragraph 4.3 change “would apply” to “would be relevant.”
- Delete paragraph 4.A8

- Insert a paragraph such as the following in the section titled “Preconditions for an agreed-Upon Procedures Engagement.”

Chapter 1 indicates that a practitioner must be independent when performing an attestation engagement in accordance with the attestation standards unless the practitioner is required by law or regulation to accept the engagement and report on the subject matter or assertion.<sup>1</sup>

When the practitioner is not independent but is required by law or regulation to accept an agreed-upon procedures engagement and report on the procedures performed and findings obtained, the practitioner’s report should specifically state that the practitioner is not independent. The practitioner is neither required to provide, nor precluded from providing, the reasons for the lack of independence; however, if the practitioner chooses to provide the reasons for the lack of independence, the practitioner should include all the reasons therefor.

<sup>1</sup> Paragraph 1.24 of chapter 1

- In paragraph 4.24, insert the words “the report should not state” after the word “example.”
- In paragraph 4.29 change “referred to in” to “covered by” and change “report” to “findings.”
- Revise the first sentence of paragraph 4.41 to state, “The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws and regulations.”

#### Changes to Chapter 5, “Prospective Financial information”

- In paragraph 5.11*c*, delete “unless the responsible party has agreed to describe the limitations in the partial presentation.”
- At the end of paragraphs 5.12 and 5.14, add “in which case the practitioner should express an adverse opinion in the practitioner’s report.”
- Revise paragraph 5.28*b* to state “identify which of the assumptions are hypothetical.”
- Reevaluate whether the terms “financial forecast,” “forecast,” “financial projection,” and “projection” are used correctly and consistently throughout the chapter.
- Add the words “based on the practitioner’s opinion” at the end of paragraph 5.31*e*(ii)
- In the lead in to paragraph 5.34 and in paragraph 5.A34, change “issue” to “express.”

#### Chapter 6, Reporting on Pro Forma Financial Information”

- Delete the phrase “in all material respects” from paragraph 6.5*a* and insert that phrase at the end of paragraph 6.5*a*(ii) and 6.5*a*(iii). Revise paragraph 6.16*j*(ii) and the illustrative examination reports to agree with this wording.
- Insert the words “of each” before “significant” in paragraph 6.8*c*

- In paragraph 6.A11, replace “a” with “each.”
- In paragraph 6.11 insert the word “of” before the word “each.”
- In paragraph 6.17g(ii) insert the word “significant “ before “constituent.”

#### Changes to Chapter 7, “Compliance Attestation”

- In paragraph 7.6a(i), delete the words “in all material respects,” and the words “in accordance with [or based on] the criteria or about whether;” move paragraph 7.6 a(i) into paragraph 7.6a; and delete paragraph 7.6a(ii)
- Revise paragraph 7.6b to state “express an opinion in a practitioner’s written report about whether
  - an entity complied with the specified requirements, in all material respects, or
  - management’s assertion about its compliance with the specified requirements is fairly stated, in all material respects.”
- In paragraph 7.10 delete “in accordance with [or based on] the criteria.”
- In the lead-in in paragraph 7.16, insert the words “from management” after the word “representations.”
- In the lead-in paragraph 7.23, delete the words “all of.”
- Make the illustrative examination reports in chapter 7 consistent with those in chapter 2 and the illustrative agreed-upon procedures reports in chapter 7 consistent with those in chapter 4.

## **2. Service Orgs**

Joe Griffin, Chair of the Service Organizations Task Force, led the ASB in a discussion of a draft of proposed chapter 8, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting: Clarification and Recodification*, of the proposed clarified attestation standards, marked from the draft presented at the July 21-23, 2015 ASB meeting. During its discussion, the ASB recommended that the following changes be made to the draft and that a revised draft be presented to the ASB for discussion during an ASB conference call on November 23, 2015, at which time the ASB will be asked to vote to ballot the chapters for issuance as a final standard.

- Use the term “service auditor’s report” whenever referring to the report issued by the practitioner.

- Delete the definition of the term “deficiency in a control at a service organization relevant to user entities’ internal control over financial reporting” in paragraph 8.8f.
- Clarify in the definitions of the terms “type 1 report” and “type 2 report” in paragraphs 8.8p and 8.8q, respectively, that these terms are the same as the terms “management’s description of a service organization’s system, and a service auditor’s report on that description and on the suitability of the design of controls,” in paragraph 8.8h and “management’s description of a service organization’s system, and a service auditor’s report on that description and on the suitability of the design and operating effectiveness of controls,” in paragraph 8.8i, respectively.
- In the fourth bullet of paragraph 8.A20, delete the words “the initial draft.”
- In paragraph 8.11, change “management’s” to “management of the service organization’s.”
- In paragraph 8.A19, add examples of situations in which the subservice organization is not the engaging party.
- Delete paragraph 8.A56
- In paragraph 8.A57, delete the word “but.”
- Delete the words “if applicable” from footnotes 29 and 34.
- At the beginning of paragraph 8.A72, insert the words, “In engagements in which the inclusive method is used.”

### **3. Direct Engagements**

The direct engagement standard received a great deal of debate at the most recent ASB meeting. However, the ASB was not able to resolve some fundamental issues underpinning the development of a standard. The ASB will undertake further study of the issues and this topic will be discussed at the January 2016 ASB meeting.

### **4. Reports on ERISA Audits**

Darrel Schubert, chair of the EBP Auditor Reporting Task Force (EBP task force), led the ASB in a discussion of the issues relating to developing a new requirement for employee benefit plans to report on internal control over financial reporting and compliance with certain provisions of the plan document and DOL rules and regulations for reporting and disclosure under ERISA.

The ASB raised concerns with including reporting on internal control over financial reporting in a standard for auditor’s reports for employee benefit plans. The ASB noted that the performance requirements for internal control over financial reporting has broader applicability to more than

employee benefit plans and therefore they were concerned with developing a reporting requirement about internal control just for employee benefit plans. Accordingly, the EBP task force will not address reporting on internal control over financial reporting as part of the EBP auditor reporting project.

The ASB directed the task force to continue moving forward with a model for reporting on compliance in employee benefit plan audits. The ASB supported a model that creates performance requirements to enable the auditor to report on compliance and supported requiring the inclusion of the instances of noncompliance in the report on compliance. The ASB ask the EBP task force to consider AU-C section 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* when developing this aspect of the standard.

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

## **4. 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 proposed revisions are intended to align certain performance requirements of SAS No. 126 to the recently issued FASB standard on going concern and International Standard on Auditing (ISA) 570, *Going Concern*. The objective of the discussion was to solicit feedback and direction on key issues.

The following is a summary of the matters discussed.

### ***Auditor Reporting Issues***

Mr. Panucci discussed the options related to auditor reporting when the financial reporting framework requires management to disclose that substantial doubt exists about the entity's ability to continue as a going concern. The options are to: 1) retain the existing model to include an emphasis-of-matter paragraph and auditor conclusion related to substantial doubt in the auditor's report, 2) take the approach that the issue of going concern, like any other disclosure, is part of GAAP, and it is a matter of the auditor's professional judgment whether to include an emphasis-of-matter paragraph referencing management's disclosure in the auditor's report, or 3) require an emphasis-of-matter paragraph referencing management's disclosure in the auditor's report. After discussion, the ASB agreed, from a performance perspective, the auditor is required to independently conclude whether there is substantial doubt about an entity's ability to continue as a going concern. As it relates to the reporting, the ASB agreed to require an emphasis-of-matter paragraph that will be modeled after the IAASB's auditor's report section on material uncertainty related to going concern. This model highlights at the beginning of the auditor's report section on material uncertainty related to going concern, the note(s) that contain management's disclosure instead of trying to distinguish whether there is a separate auditor conclusion or not. The ASB also suggested that 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. Additionally, the ASB directed the Task Force to address in application guidance going concern considerations in audits of Special Purpose Frameworks and audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statements.

The ASB agreed to retain the requirements and application guidance related to Disclaimers, Comparative Presentations, and Eliminating the Going Concern Emphasis-of-Matter Paragraph, which are not included in the IAASB's standards. In doing that, however, the ASB directed the Task Force to also include an illustration of a disclaimer situation.

### ***Interim Financial Information***

Mr. Panucci discussed the issues of Interim Financial Information and the options for the auditor to report thereon when management is required by the financial reporting framework to conclude on whether there is substantial doubt about an entity's ability to continue as a going concern in an interim period, that is, 1) conclude and report on the entity's ability to continue as a going concern consistent with the auditor reporting responsibilities in a year-end audit, 2) retain the model in extant AU-C 930 which is not to conclude separately in the review report but allow for an option to include an emphasis-of-matter paragraph when management's disclosures are adequate, or 3) require an emphasis-of-matter paragraph when management concludes there is substantial doubt about an entity's ability to continue as a going concern in an interim period. The emphasis-of-matter paragraph would reference management's disclosure, but the auditor would not be required to independently conclude since it is an interim review. After discussion, the ASB agreed with a model to continue requiring performing review procedures and mandating an emphasis-of matter paragraph in the auditor's report when management discloses that substantial doubt exists about an entity's ability to continue as a going concern.

### ***Reasonable Period of Time***

Mr. Panucci explained the Task Force's proposed changes to the definition of reasonable period of time. Under the proposal, the definition of reasonable period of time would be either as defined by the applicable financial reporting framework or at least twelve months from the date of the financial statements are issued or available to be issued. After discussion, the ASB agreed with the Task Force's recommendations but directed the Task Force to consider adding application guidance to address Special Purpose Frameworks.

Mr. Panucci also explained the proposal of including paragraph 15 of ISA 570, *Going Concern*, which addresses the auditor making inquiries of management as to its knowledge of conditions or events beyond the period of management's assessment. The ASB expressed concern about including paragraph 15, because it would extend the reasonable period of time required under certain financial reporting frameworks. The ASB suggested that the Task Force consider revising the requirement in paragraph 15 and making it more specific to financial reporting frameworks that define reasonable period of time as a minimum time period, for example, IFRS whose definition of reasonable period of time is at least twelve from the date of the financial statements.

The ASB had no comments about the Task Force's proposal to include the term reasonable period of time throughout the standard when discussing the responsibility to evaluate the entity's ability to continue as a going concern.

### ***Evaluating the Adequacy of Disclosures and Terminology***

The ASB agreed with the Task Force's proposed edits to make paragraph 19 of ISA 570, which deals with the auditor's requirement to evaluate the adequacy of the disclosures, framework-neutral and various other proposed edits to align the terminology used in ISA 570 to the U.S. environment.

Mr. Panucci raised the issue whether the proposed SAS should continue to require the auditor to evaluate the adequacy of disclosures in situations wherein the accounting framework does not explicitly require management to make the going concern disclosures. Mr. Pallais observed that the situation could be encompassed under the existing requirement whether the financial statements are fairly presented. After discussion, the ASB agreed that in the absence of a requirement in the accounting framework, the auditor should not be required to explicitly evaluate the adequacy of management's going concern disclosures, as it would be encompassed under the existing requirement whether the financial statements are fairly presented. However, the ASB directed the Task Force to consider whether additional application guidance might be helpful.

The ASB will continue to discuss the going concern topic at its next meeting in January 2016.

## **5. Clearinghouse Presentation**

Representatives of CPA.com provided the ASB with a presentation about a new financial clearinghouse solution, Rivio.com. The private company financial information exchange validates CPA firms, and ensures that the most current, unaltered version of financial documents are delivered to key financial stakeholders.

## **IAASB Update**

Mr. Landes provided an update on the activities of the IAASB.