

AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

October 17-20, 2016

Atlanta, GA

MEETING ATTENDANCE

ASB Members

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

AICPA Staff

Amanda Black, *Content Development*
Mike Glynn, *Audit & Attest Standards*
Ahava Goldman, *Audit & Attest Standards (10/19-20)*
Hiram Hasty, *Audit & Attest Standards*
Kristy Illuzzi, *PCPS Technical Issues Committee*
Chuck Landes, *Professional Standards*
Teighlor March, *Assistant General Counsel*
Andy Mrakovic, *Audit & Attest Standards*

Observers and Guests

Denny Ard, *Dixon Hughes (10/19-20)*
Michael Auerbach, *U.S. Department of Labor (10/18-19)*
Sally Ann Bailey, *Deloitte & Touche LLP*
Joseph Cascio, *EY LLP*
Jim Dalkin, *GAO (10/19-20)*
Courtney Drake, *EY LLP*
Harrison Greene, *FDIC*
Bridget Gyofri, *KPMG LLP*
Kathy Healy, *PwC LLP*
Vicki Hellenbrand, *Baker Tilly Virchow Krause, LLP*
Jan Herringer, *BDO*
Susan Jones, *KPMG LLP*
Nigyar Mamedova, *NASBA*
Lynne McMennamin, *U.S. Department of Labor (10/18-19)*
Jeff Rapaglia, *Dixon Hughes Goodman LLP (10/18-19)*
Darrel Schubert, *Ernst & Young LLP (10/17)*
David Steimel, *EKS&H, LLP*
Joseph Wolfe, *AON*

Chair's Report

Mr. Santay and Mr. Landes reported on recent activities. Mr. Santay thanked the departing members of the ASB — Liz Gantnier, Sandra Johnigan, Ryan Kaye, Josh Partlow, and Marc Panucci — for their years of devoted service.

1. Going Concern

General

Mr. Panucci highlighted that the Task Force received 20 comment letters and all commenters were supportive of the ASB's project to align the proposed SAS with the accounting standards in the United States and to converge AU-C section 570 with ISA 570.

Applicability of AU-C section 570 to Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

Mr. Panucci explained that responders expressed divergent views on the issue whether AU-C section 570 applies to audits of single financial statements and specific elements, accounts, or items of a financial statement. He suggested that the view of the majority of responders who commented in this area should be reflected in the final standard since the ASB specifically asked for feedback on this point. The majority view was AU-C section 805 be amended to reflect AU-C section 570 does not apply to audits of single financial statements and specific elements, accounts, or items of a financial statement since AU-C section 570 is typically performed the entity as a whole.

Some members were concerned about making such an absolute statement because there might be circumstances that highlighting a going concern matter in the auditor's report might be useful to users of such financial statements such as an audit of a balance sheet. However, other members noted that in audits under AU-C section 805, the auditor's work effort does not provide sufficient information to reach a conclusion about going concern.

After the discussion, the ASB reached the consensus to be explicit that: 1) AU-C section 570 does not apply to audits of single financial statements and specific elements, accounts, or items of a financial statement, 2) make it explicit in the auditor's report that AU-C section 570 was not considered in such audits, 3) and keep the application guidance to highlight consideration of risk and uncertainties and add to the application guidance if risks and uncertainties exists an audit may include an emphasis-of-matter paragraph. Considering whether the audit report in audits conducted in accordance with AU-C section 805 makes reference to an emphasis-of-matter paragraph when an auditor includes an emphasis-of-matter paragraph in the auditor's report related to an audit of a full set of general purpose financial statements related to going concern will be an issue for consideration by the auditor's report Task Force.

Special Purpose Frameworks

Mr. Panucci explained that several responders questioned why AU-C section 570 would not be applicable to the cash basis of accounting and one responder also questioned why it would not apply to the tax basis of accounting. In addition, one responder representing a federal agency expressed concern with the interpretation that going concern might not be applicable to special purpose frameworks.

Based on the divergent views, including at the Task Force, Mr. Panucci presented two options to address the issue of whether AU-C section 570 applies in audits of special purpose frameworks: 1) revert to extant AU-C section 570 or 2) retain the model proposed in the Exposure Draft with additional application guidance.

The ASB debated whether the concepts of basis of accounting and substantial doubt can be separated.

After discussion, the ASB reached a consensus: 1) to require that AU-C section 570 is applicable in audits of financial statements prepared in accordance with special purpose frameworks related to substantial doubt conclusion but not for the basis of accounting conclusion since the financial statements are prepared in accordance with a special purpose framework, 2) to include application guidance to explain that basis of accounting and substantial doubt are mutually exclusive concepts, and 3) for less than full financial statements prepared using a special purpose framework, AU-C section 805 would apply

Interim Financial Information

Mr. Panucci explained that a responder expressed the view that it is not clear from the conforming amendments to AU-C section 930, what the work effort may be as it relates to the consideration of going concern in reviews of interim information. Also not clear what is meant that the nature and extent of interim review procedures are a “matter of the auditor’s professional judgment.” Another responder suggested additional application guidance in predecessor-successor auditor situations.

After discussion, the ASB confirmed that the work effort related to consideration of going concern in review of interim financial information should be a matter for auditor judgment.

Considerations for Governmental Entities

Mr. Panucci explained that responders suggested that the proposed SAS should better address the impact on governmental entities and suggested additional application guidance to address governmental considerations. The ASB was supportive of the Task Force’s edits to the proposed SAS in this regard.

Inquiry Beyond Evaluation Period

Mr. Panucci explained that several responders raised the issue that the requirement in paragraph 17 of the proposed SAS to inquire of management regarding its knowledge of conditions or events beyond the period of management’s evaluation could be interpreted as going beyond what is required by FASB. He further explained that the Task Force recommended edits to paragraph 17 to remove the notion that this inquiry is made in connection to whether there is substantial doubt, but rather the intent is to make inquiries about management’s knowledge about whether there is anything beyond the required evaluation period that may require further disclosure. The ASB was supportive of the Task Force’s edits to the proposed SAS in this regard.

Third-Party Confirmations

Mr. Panucci explained that a responder suggested elevating paragraph A27 of the Proposed SAS which provides application guidance to situations in which management's assumptions include continued support by third parties (for example, subordination of loans, additional funding or guarantees) to a requirement. He noted that the Task Force accepted the recommendation to elevate paragraph A27 to a new requirement and include owner-manager situations in the requirement as well. The Task Force also recommended application guidance to: 1) provide guidance when the written confirmation is essential in arriving at the conclusion whether there is substantial doubt, 2) provide guidance when the written confirmation is not considered essential to arrive at the conclusion whether there is substantial doubt, 3) clarify the written confirmation relates to the willingness of support but not necessarily the ability to support, and 4) provide illustrative language in the application material of a letter of support.

The ASB was supportive of elevating the application guidance to a requirement but suggested drafting the requirement at a more principles-based manner and the requirement should be for the auditor to ask management to obtain the support letter and include application guidance the auditor may confirm directly with the guarantor, as deemed appropriate.

Review of Proposed SAS

Mr. Panucci lead the ASB through a review of the proposed SAS, and the ASB suggested various edits to the document.

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 ASB continued to support a separate standard specific to forming an opinion and reporting on ERISA plan financial statements that includes 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 provided the task force with suggested wording changes. In addition the ASB asked the task force to—

- Include a definition of Form 5500 in the scope section of the proposed SAS
- Clarify what is meant by “Some of the information is required to be covered by the auditor’s report” in paragraph .A5
- Clarify the scoping section of the proposed SAS to better explain how this proposed SAS fits within GAAS
- Consider whether “financial disclosures” should remain in paragraph .A8 because a certification also covers the investment valuation in the notes
- Remove the word “incremental” in paragraph .A11 because the required procedures are considered part of a GAAS audit and are not incremental to the audit
- Consider whether the objectives need to include reference to the supplemental schedules and reporting on plan provisions
- Revise the title “Procedures for Forming an Opinion and Reporting on ERISA Plan Financial Statements” because it implies that this contains all required procedures for an EBP audit when instead these are highlighting certain ones that should always be performed as part of the audit
- Revise the “Engagement Acceptance” and “Written Representations” sections to include only those representations that result in new reporting. Consider including other examples (ones that don’t directly relate to the new reporting) as application material and reference to the AICPA Audit and Accounting Guide *Employee Benefit Plans* (EBP Guide)
- Clarify the lead in paragraph to the “Procedures for Audits of ERISA Plan Financial Statements” section (paragraph .12) so that the paragraph clarifies that while the amount of testing that is done depends upon the auditor’s risk assessment, the auditor always needs to perform some testing on these items because of the related reporting component.

- Clarify the appropriate wording for the auditor’s responsibilities relating to the plan document in paragraph .12(a) because the ASB believes the auditor needs to do more than “review” the plan document
- Consider including a reference to the EBP Guide to explain what a summary plan description is in paragraph .A18
- Consider removing “testing” when discussing the procedures for audits of ERISA plan financial statements in paragraph .12 because the section appears to be objectives and the procedures to be performed would be determined by the auditor (and use of the audit guide for guidance). Consider whether the auditor’s report needs to be revised accordingly
- Consider adding census data testing to paragraph .A24
- Define individual account plans in paragraph 12(b)
- Clarify paragraph .A35 because as drafted it appears to conflict with the treasury regulation that is cited
- Provide a link to the plan document for paragraph .12(j) because it does not appear to be a procedure linked to the plan document
- Consider how the entire proposed SAS applies to multiemployer and multiple employer plans and how best to include them in the proposed SAS.
- Consider including the definition of “findings” earlier in the proposed SAS
- Clarify how AU-C 230, *Audit Documentation* applies in relation to paragraph .13 and .A40 of the proposed SAS because AU-C 230 relates to significant findings while the intent of the proposed SAS is to document all findings.
- Clarify paragraph .A41 to better explain what is meant by clearly inconsequential and consider ways to clarify the bullets because they appear to be repetitive
- Clarify that the auditor should perform further audit procedures when either the auditor becomes aware that certified information is incomplete or as part of the procedures performed
- Consider adding management representations to paragraph .18 that management has provided the auditor with the most current plan document and amendments because a plan audit is dependent upon the plan document
- Eliminate the reference to “estimates” as it relates to management representations because those are covered under the general management representations and don’t need to be repeated

- Consider whether the content in paragraph .A56 relates to more than just paragraph .20 as referenced
- Revise paragraph .26(b) to exclude the new form of limited-scope report because AU-C 705 would not apply unless there are other scope limitations or a material misstatement of the financial statements
- Provide an illustration of an audit of ERISA plan financial statements when the ERISA-permitted scope limitation is imposed and there are other scope limitations (for example, missing books and records or when there is a need to qualify or disclaim an opinion on the financial statements)
- Revise the section on “Considerations Relating to the Form 5500 Filing” to use the terms from AU-C 720 and clarify the extent of work that needs to be completed before the release of the auditor’s report (for example, schedule H)
- Consider the need to revise paragraph .A73 to better explain the reconciling note
- Clarify that when expressing an unmodified opinion on the financial statements the notes to the financial statements may include the accumulated plan benefit obligations (for a defined benefit pension plan), rather than a separate schedule and such opinion covers those obligations
- Add warnings about including personally identifiable information (PII) as it relates to reporting the findings on specific plan provisions relating to the financial statements
- Clarify in the application material (paragraph .A103) what the Form 5500 allows for relating to firm signatures.
- Remove the examples in paragraph .A112 because they are not EBP specific
- Consider whether “comparative information” requirements need to be included in the proposed SAS because EBPs do not typically have comparative information
- Add reminder that when prior period financial statements have not been audited that the auditor has a responsibility to perform audit work on beginning balances and consider how this section applies to plans
- Move paragraph .119 to application material such that the auditor is not required to include management’s response but may choose to do so
- Consider whether to continue to illustrate findings or create elements for which the findings have to comply. If continuing to illustrate, then consider expanding the illustrations to explain the effect on the plan

- Consider the implications of having findings on the auditor’s opinion. When the opinion is not modified due to the findings, consider adding a statement that the opinion is not modified with respect to the findings
- Consider whether the report should say when there are internal control issues due to the findings
- Keep the management representations consistent regardless of type of plan

The ASB will discuss this topic again at the January 2017 ASB meeting.

3. Other Information

The ASB discussed issues relating to the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* - which is intended to converge with ISA 720 (Revised) *Other Information in Documents Containing Audited Financial Statements*. The ASB’s consideration of the issues identified in the discussion memorandum as follows:

- Issue #1 – Definition of *annual report* and clarification of documents in the scope of the SAS
 - Require that the auditor discuss the contents of the annual report with the client
 - Not required to include in the engagement letter but include application guidance that the discussion could be documented in the engagement letter
 - The annual report may consist of a combination of documents
 - Use the standard title from the ISA (that is, do not add the phrase “in annual reports” which the TF had recommended for clarity
- Issue #2 – Omitted information
 - The IAASB was looking to incorporate the notion of an “intelligent read” and that, in reading, the auditor may become aware that something is omitted
 - While it will be a challenge because the AICPA Code does not include the concept of “misleading because omitted” information (which is in the IEBSA Code), need to find a way to get the concept of omitted information through the requirement that the OI not be inconsistent with the auditor’s knowledge
 - Be careful not to imply an auditor responsibility with respect to completeness
- ISA definitions vs. AU-C section 720 definitions
 - Concern that the SAS may be ISA minus if it does not use the ISA definitions.
 - Agreed to use ISA 720 definitions but not use the term “misleading”

- Issue #3 – Reporting
 - Focus on describing the auditor’s responsibility for OI instead of what OI had been received

The OI Task Force was directed to bring a draft standard to the ASB January 2017 meeting.

4. Auditor Reporting

Mr. Montgomery, chair of Auditor Reporting Task Force, led the ASB in a discussion of proposed revisions to AU-C section 700 *Forming an Opinion and Reporting on Financial Statements*, which reflect convergence with ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*.

The ASB discussed the following:

Issue 1— Reporting on Internal Control Over Financial Reporting

The ASB discussed whether the auditor’s report should include the details of the communications the auditor makes to those charged with governance about significant deficiencies and material weaknesses identified in an audit, and concluded that this should remain a communication with management and those charged with governance. The ASB directed the task force to converge with ISA 700 (Revised).

Issue 2 — Proposed AU-C 700

The ASB discussed proposed AU-C 700 and supported a requirement for the opinion section to be placed first in the auditor’s report, followed by the basis for opinion section. The ASB discussed other proposed changes, such as an affirmative statement about the auditor’s independence and other ethical responsibilities in accordance with relevant ethical requirements, expanded sections relating to management and auditor responsibilities, and reporting when the audit is conducted in accordance with GAAS and another set of auditing standards. The ASB provided the task force with suggested wording changes. In addition, the ASB asked the task force to—

- Consider whether the proposed SAS should require the city and state of the addressee to be included in the auditor’s report because this would provide information about where the auditor is permitted to practice
- Consider whether the proposed SAS should require reference to the AICPA Code of Professional Conduct as it relates to the auditor’s statement about independence and other ethical responsibilities, when applicable
- Consider including application material about needing to be independent for the period under audit
- Clarify the effect on the engagement letter when the auditor decides to include key audit matters in the auditor’s report

- Add new application material (paragraph .A44) that states “Because the auditor’s opinion is based on obtaining reasonable assurance the auditor’s report does not constitute a guarantee,” to support the use of “guarantee” in the requirements.
- Revise the application material to better explain why the risk of fraud is higher than for an error.
- Consider the effect of SAS 130, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*, on the proposed SAS as it relates to the auditor’s responsibilities to obtain an understanding of internal control
- Remove requirements that describe the auditor’s responsibilities in a group audit engagement because GAAS allows the auditor to make reference in the auditor’s report to the audit of a component auditor. Such reference provides transparency around the auditor’s responsibilities
- Add application material relating to the signature and the use of digital and facsimile electronic signatures
- Clarify that the engagement quality control review (EQCR) is not required and therefore the auditor’s report cannot be released prior to the completion of the EQCR only when an EQCR is being performed
- Consider dual reporting with other auditing standards, including PCAOB, ISAs, and government auditing standards and how best for the proposed SAS to cover these, keeping in mind SAS 131, *Amendment to Statement on Auditing Standards No. 122 Section 700, Forming an Opinion and Reporting on Financial Statements* and Auditing Interpretation No. 3, *Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing*.

Issue 3 — IAASB’s Disclosures Project

The ASB asked the Disclosures Task Force to consider the changes for the auditor’s report that arose from the IAASB disclosures project.

Issue 4 — Auditor’s Reports Prescribed by Law or Regulation

The ASB supported including a section in the proposed SAS to address auditor’s reports prescribed by law or regulation because they believe there could be situations in which this section could pertain. The ASB asked the task force to consider whether a restriction on the use of such reporting would be needed.

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

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The ASB will discuss this topic again at the January 2017 ASB meeting.

5. Specified Procedures

The objective of the discussion was to review and obtain feedback on issues related to and a revised draft of a proposed standard dealing with engagements to perform specified procedures.

Responsibility for the sufficiency of the procedures

The ASB discussed the construct of the standard with respect to responsibility for the sufficiency of the procedures.

- At its meeting in May 2016, the Board directed that the standard not require the engaging party to accept responsibility for the sufficiency of the procedures performed as the engaging party may not have a basis for making such a determination. Subsequently, the Task Force drafted the proposed standard such that there would be no requirement for any party to accept responsibility for the sufficiency of the procedures.
- A point was made that, while the standard was appropriately flexible in allowing either the engaging party or the practitioner to accept responsibility for the procedures, some party would need to take responsibility for the sufficiency of the procedures. A contrasting position was voiced in that the purpose of the proposal was to create a service in which the practitioner designed and took responsibility for the procedures and that if the engaging party or another party took such responsibility, an agreed-upon procedures engagement would be appropriate.
- It was pointed out that the draft illustrative reports include a statement that the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose. The criticism is that this statement renders the report meaningless to potential users. A proposal was made to delete that statement and replace with a statement describing the purpose of the engagement.
- The ASB directed that the proposed standard should:
 - Make no reference to responsibility for the sufficiency of the procedures but instead be clear that the practitioner determines the procedures, performs the procedures, and reports on the procedures.
 - Require that the report identify the purpose of the engagement in a way that does not imply that the practitioner is expressing an opinion or a conclusion on the subject matter.
 - Permit the description of the service in the report to include a statement that no party is required to make or provide a written assertion on the subject matter but not permit any reference as to whether the practitioner obtained a written assertion as it is not relevant to include a discussion of an assertion since one is not required in this type of engagement.

- Not include reporting requirements in order to differentiate from an agreed-upon procedures engagement.

Name of the service

From the onset of the project to develop a standard for a non-assertion based engagement in which the practitioner performs procedures and reports on the results of those procedures, the service has been referred to as *specified procedures*. As the project has progressed, the Task Force no longer believes that the name is an accurate description of the service. In addition, the term *specified audit procedures* is used in AU-C section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* and the term *specified procedures* is used in paragraph .14 of the AT-C Preface to refer to procedures performed in an agreed-upon procedures engagement. The use of the same or similar term may cause confusion.

After discussion, the ASB stated that while the name may change again, the service should be referred to as *selected procedures* in subsequent drafts of the proposed standards.

Applicability of the standard – specified procedures vs. agreed-upon procedures

The Task Force drafted the introduction paragraph and the related application paragraphs to provide a clear differentiation from agreed-upon procedures engagements and also to provide a reference to the agreed-upon procedures literature if the engagement fits the agreed-upon procedures criteria.

After discussion, the ASB directed that the Task Force revise proposed paragraph X.1 to explicitly state what a specified procedures engagement is, state that it is not an agreed-upon procedures engagement, and then include application guidance contrasting the two services.

Other information

Certain ASB members felt that requiring the practitioner to consider other information in a service that results in a general use report makes sense. However, other ASB members felt that considering other information was a risk management issue for the practitioner.

The ASB directed that, since there is no criteria for the practitioner to use in determining whether the other information is consistent with the subject matter of the engagement, that the proposed standard should not include requirements with respect to other information.

Consideration of subsequent events and subsequently discovered facts

The ASB directed that the requirement focus on instances in which, subsequent to the date of the practitioner's specified procedures report, the practitioner becomes aware of facts that may have existed at the time of the practitioner's report that might have affected the practitioner's specified procedures report had the practitioner been aware of such facts.

Reporting

The ASB directed that:

- The practitioner's report should describe the reason that the practitioner was engaged.
- An illustrative report should be presented that shows the minimum required language as well as an illustrative report that shows additional, but not required, disclosures.

Common concepts

The ASB directed the Task Force that one common concepts chapter should be developed that addresses all attestation engagements. The ASB suggested that the Task Force consider the corresponding international standards in developing such a common concepts chapter.

Next Steps

The Task Force will present revised agenda materials to the ARSC at its meeting November 15-17, 2017.

The Task Force will plan to present a revised draft of the proposed standard to the ASB at its meeting in January 2017. While the Task Force may ask the ASB to vote to expose the proposed standard for public comment at the January 2017 meeting, it is more likely that such a vote would be requested for the May 2017 meeting.

6. Direct Engagements

Ms. Schweigel led the ASB in a discussion of the direction for drafting an attestation standard that would enable practitioners to report on an examination or review engagement under the attestation standards without having to request a written assertion from the responsible party. The following points were discussed:

- Whether a direct engagement is a two-step process in which the practitioner measures the subject matter and then validates it.
- Whether planning a direct engagement differs from planning an assertion-based engagement because of the possibility that there will be errors in the SM as well as errors in how the SM relates to the criteria

The ASB made the following recommendations to the Task Force:

- Consider introducing the concept of *subject matter information* (SMI) in the standard to differentiate it from *subject matter* (SM)

Subject matter is the information upon which the practitioner performs procedures. It is the object/ process that will be measured or evaluated against the criteria. The responsible party is responsible for the subject matter.

Subject matter information is the product provided by management or the practitioner resulting from the procedures performed on the subject matter. The outcome of the measurement of the subject matter against the criteria is the SMI. In the case of a direct engagement, the practitioner's report may be the only SMI.

- Use CSAE 3001 as the model for drafting the standard and consider what needs to be added or deleted from that model. This includes
 - determining whether to use certain terminology found in CSAE 3001, for example, significance and deviations as opposed to materiality and misstatements.
 - considering whether the definitions are clear or could benefit from additional requirements and application material in AT-C 205 and 305.
- Consider whether to focus on the reasonable assurance standard before developing a limited assurance standard, based on the work effort involved
- Draft illustrative reports to provide the ASB with further clarification about how the direct engagement standard could be implemented. Guidance could possibly be provided along with the illustrative reports using a “working from the end to the beginning” description of the process that the practitioner could follow in performing a direct engagement. The illustrative reports would include:
 - an identification of the objectives and criteria
 - the basis for the conclusion
 - procedures and findings to give context to the conclusion, for example the extent of testing
- Provide a list of “prohibited subject matter” upon which a DE could be performed, or a discussion about why no subject matter should be prohibited.