



**AUDITING STANDARDS BOARD (ASB)
Meeting Highlights
January 16-19, 2018
New Orleans, LA**

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

Peter Alfele, *CliftonLarsenAllen*
Denny Ard (1/16)
Sally Ann Bailey, *Deloitte & Touche LLP*
Adam Barrow, *EY LLP*
Nancy Bumgarner, *KPMG (SP portion only)*
Jim Dalkin, *GAO*
Judy Goldberg, *EY LLP*
Josie Hammond, *RSM US LLP (1/16-17)*
Kathy Healy, *PwC LLP*
Jan Herringer, *BDO*
April King, *RSM US LLP*
Nigyar Mamedova, *NASBA*
Darrel Schubert
Laura Schuetze, *Grant Thornton*
Rich Sharko, *PwC (by phone, 1/18)*
Mark Wells, *Thomson Reuters*
Dan Vooght, *Grant Thornton*

AICPA Staff

Sue Coffey, *Senior Leadership Team*
Linda Delahanty, *Audit & Attest Standards*
Robert Durak, *CPEA*
Mike Glynn, *A&A Standards*
Ahava Goldman, *A&A Standards*
Hiram Hasty, *A&A Standards*
Chuck Landes (by phone)
Teighlor March, *Assistant General Counsel*
Andy Mrakovcic, *A&A Standards*

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Judith Sherinsky, A&A *Standards*

Chair's Report

Mr. Santay reported on recent meetings and conferences that he attended in his role as Chair. He thanked the outgoing members of the ASB—Gerry Boaz, Steve Glover, Dan Hevia, Rick Reisig and Cathy Schweigel— for their service.

The ASB approved the highlights of the October ASB meeting.

Selected Procedures

Mr. Ard led the ASB in a discussion of the proposed SSAE *Selected Procedures*. This is a joint project with the Accounting and Review Services Committee (ARSC). The objective of the discussion was to consider the comments received on the public exposure of the proposed SSAE; to provide the ASB with the Selected Procedures Task Force's (the Task Force) plan with respect to the proposed revisions to the attestation standards; and to obtain feedback and direction from the ASB.

Proposed New Standard Versus Integrating with AT-C section 215

The ASB agreed with revising AT-C section 215 to provide increased flexibility in the performance of and reporting on an agreed-upon procedures engagement. This approach will likely avoid issues with state regulations that refer specifically to agreed-upon procedures engagements in accordance with the AICPA's attestation standards.

Responsibility for the Sufficiency of the Procedures

The ASB discussed the proposed revision to require that the engaging party acknowledge that the procedures are appropriate for their intended purpose and directed that the Task Force consider the issue of *sufficiency* vs. *appropriateness* of procedures and bring a recommendation to the ASB at their May 2018 meeting. While many ASB members expressed support for the proposed revision to AT-C section 215 such that the terms of the engagement would not be required to include the specified parties' agreement on the sufficiency of the procedures, certain ASB members expressed support for retaining the *sufficiency* threshold from extant AT-C section 215. An alternative approach was proposed whereby the engaging party would "agree to" the procedures without mention of either sufficiency or appropriateness.

Concern was raised as to how a practitioner could identify the intended purpose of the engagement for inclusion in the report. It was suggested that examples of intended purposes could be developed using the examples of assertions in extant AT-C section 215.

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Responsibility for the Subject Matter of the Engagement

The ASB did not agree with the Task Force proposal that the definition of *responsible party* in AT-C section 105 be revised (or include an application paragraph) to state that there may be engagements in which the responsible party is not a party to the engagement. The ASB did agree with the Task Force's proposal that the responsible party be identified in the practitioner's report unless the responsible party is not a party to the engagement.

Use of the Practitioner's Report

To provide increased flexibility, the Task Force is proposing that AT-C section 215 be modified so as to require that the report include an alert restricting the use of the report to specified parties only in certain specified circumstances, not for all engagements. The proposed standard would not preclude the practitioner from restricting the use of the report if the engaging party requests that the report be restricted or if the practitioner deems a restriction on the use of the report to be appropriate. Also, it is proposed that the report would be required to include language that serves as an alert that the procedures may not be suitable for any other purposes. The comments received on the exposure draft generally supported this direction.

One ASB member suggested that the standard could be drafted so as to create a rebuttable presumption that the agreed-upon procedures report would be restricted as to use but provide circumstances for exceptions so that the practitioner could issue a general-use report. Other alternatives discussed included the notion that the standard could include a requirement for the practitioner to consider whether the report may be misleading and, if not, the practitioner could issue a general-use report with no required restrictions. The Task Force will consider the alternatives proposed.

Independence Considerations

The proposed SSAE would require that the practitioner be independent with respect to the responsible party in all matters relating to an agreed-upon procedures engagement. Respondents to the exposure draft raised concerns, which will be summarized and sent to the PEEC for consideration. The ASB members were requested to provide any additional questions with respect to independence issues to Mr. Glynn for inclusion in the communication to the PEEC.

Reporting on ERISA Plan Financial Statements

Mr. Schubert led the ASB in a discussion of agenda item 2 relating to reporting on ERISA plan financial statements. The objective of this agenda item was to inform the ASB about the feedback from the comment letters received and to obtain feedback and direction from the ASB relating to certain topics from the exposure draft *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

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Issue for Consideration #1 — Required Procedures When an ERISA-Permitted Scope Limitation is Imposed

The discussion memorandum in agenda item 2 recommended the proposed SAS recharacterize the concept of an ERISA-permitted audit scope limitation to “special purpose audit.” The ASB did not fully agree with using “special purpose audit” as recommended in the issue paper. Rather, the ASB asked the task force to consider using a citation from the ERISA rules to better describe these types of engagements. For example, an “ERISA section 103 engagement.”

The ASB provided the task force with the following feedback relating to the proposed required procedures in paragraph 20 of the proposed SAS:

- Recommended moving the content from paragraph 20*b* to the engagement acceptance section of the proposed SAS because it is believed that this step would affect whether the auditor should accept the engagement.
- Agreed with removing paragraph 20*d* relating to evaluating the disclosures relating to the certified investment information.

Issue for Consideration #2 —The Form and Content of the Auditor’s Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation

The discussion memorandum in agenda item 2 presented two options for the ASB to consider relating to the form and content of the auditor’s report. A majority of the ASB supported option 1 from the discussion memorandum, and directed the task force to continue exploring a new form of report in accordance with option 1.

The ASB also asked the task force to consider whether there is a need for further guidance around the appropriate materiality level for the audit in order to provide the option 1 auditor’s report.

Reporting on ERISA Required Supplemental Schedules

While the exposure draft did not ask a specific question relating to the ERISA required supplemental schedules, comments were received relating to this topic that the task force considered. The ASB continued to support including an opinion on the form and content of the supplemental schedules to align all ERISA related reports.

Issue for Consideration #4 — Required Emphasis-of-Matter Paragraphs

The ASB agreed with view 1 of the discussion memorandum in agenda item 2 to remove all reference to the required emphasis-of-matter paragraphs in the auditor’s report.

Issue for Consideration #7 — Required Procedures Relating to the Form 5500

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The ASB agreed to retain the required procedures relating to the Form 5500 in the proposed SAS. Further, the ASB asked the task force to consider whether guidance or a requirement is needed so that the Form 5500 be obtained prior to issuance of the auditor's report. Further, the ASB supported aligning the content in this proposed SAS with that in the proposed SAS *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* once that proposed SAS becomes final.

Direct Engagements

The ASB discussed revisions to AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; 210, *Review Engagements* and; 215, *Agreed-Upon Procedures Engagements*, that would enable practitioners to perform examination, review, and agreed-upon procedures engagements without having to request a written assertion from the responsible party. This Direct Engagements Task Force (task force) and staff supporting this project are working with the Selected Procedures task force to align potential changes to the attestation standards. The following discussion highlight the matters related to the common concepts, examination and review sections.

Under the extant AT-C sections, a practitioner who is unable to obtain a written assertion from the responsible party in an examination or review engagement, is required to withdraw from the engagement, unless the engaging party is not the responsible party. In an agreed-upon procedures engagement, when the responsible party refuses to provide the practitioner with a written assertion, the practitioner is required to disclose in the practitioner's report the responsible party's refusal to provide a written assertion.

The task force's proposed revisions to AT-C sections 105, 205 and 210 eliminate the current requirement for the practitioner to request an assertion from the responsible party in examination and review engagements. Instead, the practitioner would be required to request a written representation from the responsible party stating whether the responsible party has measured or evaluated the subject matter against the criteria and, if so, the results of that measurement or evaluation. The request for written representation would not be required in circumstances where the responsible party is not measuring the subject matter (similar to Direct Engagements under the ISAs).

The ASB agreed with task force proposal that the term *review* be replaced with the term *limited assurance* throughout the AT-C sections to more closely harmonize with *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The ASB discussed that further outreach would be necessary to evaluate the potential consequences of this change.

The ASB discussed drafts of the proposed revisions to AT-C sections 105, 205, and 210 marked from the drafts presented at the October 2017 ASB meeting, and recommended that the following changes be made:

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Changes to AT-C section 105:

- Revise the definition of *appropriateness of evidence* so that the term applies to all attestation engagements. The proposed definition in the draft applies only to examination and review engagements.
- Revise the definition of *misstatement* to harmonize with the definition in ISAE 3000 (Revised).

Changes to AT-C sections 205 and 210:

- Reinstate the paragraphs that address using the work of internal auditors and using the work of a practitioner's specialist. (These paragraphs had been moved to AT-C section 105 in the January 2018 draft). In AT-C section 210 this consists of a single paragraph requiring the practitioner to apply the requirements in AT-C section 205 as appropriate to a review engagement. The ASB directed the task force to include a question in the explanatory material of the eventual exposure draft asking respondents whether specific requirements and guidance for limited assurance engagements should be included in AT-C section 210 or whether the reference to AT-C section 205 is sufficient.
- Provide an illustrative management assertion for engagements in which an assertion will be requested.
- Clarify paragraph A6 in AT-C sections 205 and 210 which address situations in which the practitioner is engaged to assist the responsible party in measuring or evaluating the subject matter against the criteria
- Provide application guidance regarding management's assertion for engagements in which the practitioner is reporting on management's assertion; consider retaining the relevant guidance in paragraphs A5-A8 of extant AT-C sections 205 and 210.
- Reinstate the phrase *in accordance with (or based on the criteria)* following the phrase *the responsible party is responsible for the subject matter* in paragraph 8d(i) of AT-C sections 205 and 210 (the engagement letter), 41a(i) of AT-C section 205 and 31a(i) of AT-C section 210 (written representations), 54e(i) of AT-C section 205 and 44f(i) of AT-C section 210 (content of the practitioner's report), and A110 of AT-C section 205 (the first paragraph of the illustrative examination report when the practitioner is reporting on the subject matter.)
- Change *responsible party* to *appropriate party* in the lead-in to paragraph 41d of AT-C section 205 and paragraph 31d of AT-C section 210.
- Reinstate the word "state" in paragraphs 41f of AT-C section 205 and 32f of AT-C section 210 (The word had been changed to confirm.)
- In AT-C section 210, add a requirement following paragraph 31 of requiring the practitioner to request written representations from both the responsible party and the

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engaging party when the responsible party is not the engaging party. In AT-C section 205 and AT-C section 210, add application material identifying the types of representations a practitioner would request from an engaging party that is not the responsible party.

- Delete the following as required elements of the practitioner’s report:
 - Paragraph 54*j* of AT-C section 205 and 44*j* of AT-C section 210: “A statement that the firm of which the practitioner is a member applied the Statements on Quality Control Standards established by the AICPA and accordingly maintain a comprehensive system of quality control (This item is not included in the auditor’s report in the AU-Cs.)
 - Paragraph 54*m* of AT-C section 205 and paragraph 44*n* of AT-C section 210: “When appropriate, a description that informs the intended users of the context in which the practitioner’s opinion is to be read.” (This item is covered in paragraph A67 of AT-C 205 and paragraph A64 of AT-C section 210.)

Changes to AT-C section 205 only:

- Revise the second sentence of paragraph 38 so that it reads as a requirement, for example, “The practitioner should apply the requirements in paragraphs 61*b* and 65 when a scope limitation exists and the practitioner is determining the type of opinion to be issued.”
- Move the requirement for the practitioner to consider materiality when evaluating whether the subject matter is free from material misstatement from paragraph 49 to paragraph. 16, or revise it to be application guidance.

Changes to AT-C section 210 only:

- Include a question in the explanatory material in the eventual exposure draft about whether the prohibition on the performance of a limited assurance engagement on (a) prospective financial information, (b) internal control, or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants should be retained. The accounting and Review services Committee had asked the ASB to consider removing the prohibitions.
- Include in proposed AT-C 210 the concepts in paragraphs .A20 and .A21 of extant AT-C section 210 regarding review evidence from analytical procedures and inquiries
- With respect to the content of the practitioner’s limited assurance report:
 - Consider revisions to make the report more consistent with the examination report
 - Require that the practitioner’s limited assurance report include an informative summary of the work performed as a basis for the practitioner’s conclusion and provide application guidance with examples. The illustrations should include

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examples with limited detail as well as examples with more extensive descriptions. ISAE 3410 Assurance Engagements on Greenhouse Gas Statements provides an illustration that can be used as a guide.

Conforming changes will be proposed to the subject matter AT-C sections as part of this project.

Auditor Reports: 800 series

Mr. Montgomery led the ASB in a discussion of issues related to proposed revisions of AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, to (1) reflect changes to the auditor’s report included in the November 2017 exposure draft *Auditor Reporting*, and (2) introduce the concept of a compliance framework consistent with ISA 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.

The ASB members discussed the questions raised by the Auditor Reporting Task Force (task force) in an issues paper and

- agreed that AU-C 800 should recognize and incorporate the concept of a compliance framework.
- agreed that the definition of *financial reporting framework* in AU-C 200 and the definition of *special purpose framework* in AU-C 800 should be expanded to include the definition of a compliance framework, as in ISA 800.
- tentatively concluded that when financial statements are prepared in accordance with a compliance framework, the auditor should not be required to perform the evaluation required by paragraph 17 of AU-C section 800, which is to evaluate whether the financial statements contain items similar to those in GAAP financial statements, whether disclosures similar to those required by GAAP are needed, and whether other disclosures are needed for the financial statements to be fairly presented.
- noted that many entities use the cash or tax basis of accounting in preparing their financial statements, and that such financial statements are widely understood and commonly accepted by banks and other stakeholders, in part because the AICPA provides non-authoritative guidance on this subject. For these reasons, the ASB concluded that the cash and tax basis of accounting should be considered fair presentation frameworks subject to the requirements in paragraph 17 of AU-C 800.
- recommended that the definition of *special purpose framework* in AU-C 800 not designate specific frameworks as it currently does. Rather the task force should try to identify the attributes of compliance frameworks and fair presentation frameworks so that a given framework may be categorized based on those attributes, and to support consistency in these designations.

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- agreed that the auditor’s report on financial statements prepared in accordance with a special purpose framework, whether a compliance or fair presentation framework, should include an emphasis-of-matter (EOM) paragraph stating that the financial statements are prepared in accordance with a special purpose framework that is a basis of accounting other than GAAP. In addition, the task force should further discuss whether, in certain circumstances, the EOM paragraph also should state that the financial statements may not be suitable for another purpose.
- agreed that because the auditor’s report on financial statements prepared in accordance with a special purpose framework would be required to include the EOM paragraph, it may not be necessary for the auditor to include an other-matter paragraph restricting the use of the report; however, the auditor would have the option of including such a paragraph.
- recommended that the task force develop factors that the auditor may consider in determining whether use of the report should be restricted, for example, financial statements, for which the regulator does not require the inclusion of certain GAAP items, such as the liability for other postemployment benefits.
- asked the task force to discuss the auditor’s responsibility when management provides contractual basis financial statements and also GAAP financial statements

Proposed revisions to AU-C section 800 and AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, will be discussed with the ASB at its May 2018 meeting. The task force also indicated that they will present issues with respect to the applicability of the going concern basis of accounting in audits of single financial statements and elements of a financial statement (AU-C 805) for discussion at that meeting.

Estimates

Rich Sharko, chair of the IAASB Estimates Task Force, provided an update to the ASB on the IAASB’s project to revise ISA 540, based on the responses received to the IAASB’s Exposure Draft: *Proposed International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures (ED 540)*. The ASB expressed support for the project and provided feedback on issues of particular concern. Key points discussed included the relationship to ISA 315 (risk assessment), application guidance, retrospective review (when and how guidance needed); and scalability/prescriptiveness of requirements. Mr. Sharko noted that he expects a final standard to be approved at the June 2018 IAASB meeting.

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Liaison Meetings

The ASB met with the AICPA Technical Issues Committee (TIC). The ASB provided updates of its current projects and received feedback from TIC members.

The ASB met with the AICPA Assurance Services Executive Committee (ASEC). Each group provided updates on their respective current projects and provided feedback to the other group. The update included ASEC projects on cybersecurity, materiality, blockchain, artificial intelligence and data analytics among other topics.

The meeting was adjourned at 5:30pm Thursday, January 18, 2018.