



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

October 15-17, 2018

Cincinnati, OH

MEETING ATTENDANCE

ASB Members

Mike Santay, *Chair*
Monique Booker
Jay Brodish
Dora Burzenski
Joseph Cascio
Larry Gill
Audrey Gramling
Gaylen Hansen
Tracy Harding
Jan Herringer
Ilene Kassman
Kristen Kociolek
Sara Lord
Alan Long
Rich Miller (by phone)
Dan Montgomery
Marcia Marien (by phone)
Jere Shawver
Chad Singletary

Observers and Guests

Peter Alfele, *CliftonLarsonAllen*
Denny Ard, *Dixon Hughes Goodman LLP*
Sally Ann Bailey, *Deloitte & Touche LLP*
Elizabeth Gantnier, *Dixon Hughes Goodman LLP*
Kathy Healy, *PwC LLP*
April King, *RSM*
Nick Kostoff, *EY LLP*
Jessica Luttrell, *NASBA*
Elizabeth Schrader, *Plante Moran PLLC*
Laura Schuetze, *Grant Thornton*
Mark Wells, *Thomson Reuters/PPC*
Dan Wernke, *Clark Schaefer Hackett*
Duncan Will, *CAMICO*

AICPA Staff

Linda Delahanty, *Audit & Attest Standards*
Bob Dohrer, *Professional Standards & Services*
Mike Glynn, *A&A Standards*
Ahava Goldman, *A&A Standards*
Hiram Hasty, *A&A Standards*
Kristy Illuzzi, *CPEA*
Chuck Landes, *Professional Standards & Services*
Teighlor March, *Assistant General Counsel*
Andy Mrakovcic, *A&A Standards*
Judith Sherinsky, *A&A Standards*

Chair's Report

Mr. Santay provided an update on recent meetings he attended on behalf of the ASB, including the AITF liaison meeting with the FASB and GASB, the US Auditing Standards Coordination Forum (GAO-PCAOB-ASB), and the AICPA Chairs Meeting, with the chairs of PEEC, PRB, ARSC, ASB, TIC, and ASEC. Topics discussed at the Chairs Meeting included the AICPA Enhancing Audit Quality project, and its areas of focus for 2019, and the CPA Evolution project, which is exploring possible changes to the CPA licensure requirements that would incorporate the skills and competencies in areas such as technology and data analytics.

The ASB agreed to begin a limited scope project to consider revising the AICPA's definition of materiality to align with the definitions held by the United States Supreme Court, the SEC, the PCAOB and FASB.

1. Omnibus

Ms. Herrerger led a discussion of the proposed SAS, *Omnibus Statement on Auditing Standards—2018*. The purpose of the discussion was to vote for balloting for issuance of the proposed SAS as a final standard.

The ASB agreed that the effective date of the standard would preliminarily be for audits of financial statements for periods that end on or after December 15, 2020, to align with the expected effective date of the proposed auditor reporting suite of standards, and that the proposed Omnibus SAS would be issued in conjunction with those standards. Accordingly, the name of the SAS was changed to *Omnibus Statement on Auditing Standards—2019*, to reflect the year in which it will be issued.

The ASB directed that the following changes be made:

- Section 260, par. 12, revert to keeping list items *f* and *g* separate
- Section 550, par. 22, delete “auditor should evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties, which involves more than assessing the process used by the entity.” from the first sentence. In the next sentence, delete “related party relationships and transactions, including” and insert “related parties and relationships and transactions. The auditor should evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties. Evaluating whether an entity has properly identified its related parties and relationships and transactions with related parties involves more than assessing the process used by the entity. The evaluation should include”
- Section 550, par. 26, first sentence, delete “significant” from before “related party transactions” and delete “also significant unusual transactions, including those”. Revise heading to reflect those changes. Insert the footnote “See paragraph .20, which requires the auditor to treat identified related party transactions that are also significant unusual transactions as giving rise to significant risks.” Explain that “the phrase related party

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relationships and transactions as used in generally accepted auditing standards is intended to have the same meaning as the phrase related parties and relationships, and transactions with related parties as used in the auditing standards of the PCAOB.”

- Section 550, par. A41, par. A43, and par. A44, change “also a significant unusual transaction” to “required to be disclosed in the financial statements or determined to be a significant risk”
- Section 240, delete par. A8A
- Section 240, par. A19, delete “as defined in the applicable financial reporting framework” from the example.
- Section 580, par. A18, last bullet, and section 930, par. A30, last bullet, change “the absence of” to “Whether any” and “undisclosed” to “exist that have not been disclosed”

The ASB voted unanimously to vote to ballot the proposed SAS for issuance as a final standard.

2. Risk Assessment

- Mr. Harding led a discussion of a draft of the AICPA’s comment letter on the Exposure Draft Proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*. Key discussion topics included the scalability of risk assessment procedures related to obtaining an understanding of the design effectiveness of internal control. The Board concluded that more clarity in this area is necessary. Mr. Harding also discussed the iterative nature of risk assessment procedures and that the proposed standard could be clearer about risk assessment documentation requirements.

3. Audit Evidence

Mr. Dohrer, Chief Auditor and chair of the Audit Evidence Task Force (the Task Force), led a discussion of the Audit Evidence project. The objective of the presentation was to solicit feedback and views from the ASB on the first read of the proposed revised AU-C section 500.

Overall Comments

- AU-C section 500 is a foundational standard and there is a relationship among the proposed AU-C section 500 and other performance standards, for example, AU-C section 330. The proposed revisions to AU-C 500 were designed and could be implemented regardless of whether changes were made at this time to either sections 315 or 330.
- The Task Force, as part of its work in revising AU-C section 500, is also looking at potential conforming amendments to other sections.
- In order to solicit views, on some of the fundamental aspects of the proposed standard, the Task Force will be conducting some extended outreach to academics, young professionals, AICPA expert panels, the legal profession and others. With regard to the international community, the International Auditing and Assurance Standards Board

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(IAASB) has been updated twice with respect to the status of this project and two IAASB observers participate in task force discussions.

Proposed Standard

- A key proposal of the standard is the inclusion of additional requirements and application material that would provide auditors a framework by which to evaluate whether sufficient appropriate audit evidence has been obtained. Under this framework, the auditor would consider attributes of audit evidence, including the reliability, sources, and nature of audit evidence. In general, the ASB was supportive of the direction of the proposals suggested by the Task Force in the proposed AU-C section 500. ASB comments and suggested refinements to the proposed standard include the following:
 - Paragraph 2 – The ASB expressed concern about establishing the relevance of information as a pre-condition to be evaluated under the proposed new framework. There might be other considerations, such as the reliability of audit evidence, that may be equally valid as a pre-condition.
 - Paragraph 2 -- The reliability of audit evidence is stated as being based on its accuracy, authenticity, completeness, and risk of bias. A view was expressed that risk of bias is subsumed in the considerations of accuracy and completeness.
 - Clarification was requested of how the relevance and reliability of audit evidence would interrelate with the concept of “appropriateness” under the proposed framework as under extant AU-C section 500, relevance and reliability are elements of appropriateness.
 - The ASB requested a “roadmap” between the usage of terms or concepts under the extant standard and those contemplated under the proposed framework in order to aid the Board’s deliberations and cautioned that the consideration of the attributes of audit evidence could be construed as prescriptive requirements if not drafted appropriately.
 - Paragraph 4 – The ASB suggested focusing the objective solely on obtaining and evaluating audit evidence.
 - Paragraph 6--The requirements with respect to the consideration of the attributes of audit evidence should be more actionable, that is, use “evaluate” rather than “consider.”
 - Paragraph 15 -- The requirement for the auditor to conclude whether sufficient appropriate audit evidence has been obtained at the relevant assertion level may be duplicative of the requirement in paragraph 28 of AU-C section 330. The ASB suggested not requiring a conclusion in AU-C section 500 and allowing the conclusions in AU-C section 315 and AU-C section 330 to stand on their own.

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- The ASB agreed with the Task Force recommendation to move the requirements and application material related to the auditor’s use of management’s specialists in AU-C 500 either to AU-C 620 or to a separate standard.
- The Task Force expressed the view that the conforming amendments to ISA 500 made by the IAASB in its recently approved ISA 540 provide very useful guidance regarding external information sources. However, the Task Force expressed concern that some of the content provides prescriptive guidance specifically on auditing accounting estimates and does not necessarily deal with the broader issue of audit evidence. Also, the same considerations to evaluate the sources of the audit evidence would be applied to external information sources. The Task Force preliminary recommendation was that this content might fit better with AU-C section 540, recognizing that some of the content might be very useful as guidance in the proposed AU-C section 500. After discussion, the ASB decided this content should be incorporated in the proposed AU-C section 500 to the extent appropriate.
- The ASB agreed to retain the Interpretations to AU-C section 500 in extant AU-C section 9500.

The Task Force will present a revised proposed AU-C section 500 at the January 2019 ASB meeting with the intent of asking the ASB to vote the proposed standard for exposure.

4. Auditor Reports 700

Mr. Montgomery led the ASB in a discussion of proposed changes to the exposure draft *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*, to address comment letter responses.

The ASB provided the task force with the following direction on the issues outlined in Agenda Item 4, *Auditor Reporting—Cover Letter and Issues Paper* from the October 2018 ASB meeting.

Forming an Opinion and Reporting on Financial Statements

Issue 1: Timing of Communication With Those Charged With Governance

The ASB supported retaining flexibility in the timing of communications with those charged with governance as set forth in AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*. The ASB recommended the task force include “*the importance of the matter to those charged with governance*” as a consideration in paragraph A50 of AU-C section 260. The ASB also asked the task force to consider whether additional examples should be included in paragraph A50 to illustrate items that the auditor may want to communicate with those charged with governance prior to the issuance of the auditor’s report.

Issue 2: Addressee in the Auditor’s Report

The ASB asked the task force to continue to explore the inclusion of the city and state of the addressee in the auditor’s report and to perform additional outreach to interested parties.

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Issue 3: Going Concern

The ASB supported option 3 from the issues paper for the proposed SAS to require including a description of management’s responsibilities for assessing the entity’s ability to continue as a going concern in the auditor’s report only when the applicable financial reporting framework contains such a requirement. The proposed SAS would also include a description of the auditor’s responsibilities to conclude on the entity’s ability to continue as a going concern in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.

The ASB supported removing the requirement to describe, in the auditor’s report, management’s responsibility for determining whether the use of the going concern basis of accounting is appropriate and the auditor’s responsibility to conclude on the appropriateness of management’s use of the going concern basis of accounting.

Issue 4: Independence

The ASB directed the task force to revise the statement in the “Basis for Opinion” section of the auditor’s report to state that the auditor is required to be independent and to meet relevant ethical requirements, rather than to include an affirmative statement about independence. The ASB asked the task force to consider whether reference to the AICPA *Code of Professional Conduct* should be included in the reference to relevant ethical requirements in the auditor’s report, taking into account paragraph A15 from AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

Issue 5: Auditor’s Responsibilities Relating to Communications With Those Charged With Governance

The ASB supported the proposed changes to paragraph 37 of the proposed SAS relating to the reference to communications with those charged with governance in the auditor responsibilities section of the auditor’s report.

Issue 8: Effective Date

The task force recommended that the effective date be no earlier than for audits of financial statements for periods ending or after December 15, 2020, with early implementation not permitted. The ASB agreed with this in principle, but will continue to discuss the effective date at the January 2019 ASB meeting and align the effective date with other ASB projects currently being deliberated and finalized, including finalized SAS *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, approved SAS *Omnibus Statement on Auditing Standards—2018*, and proposed SAS *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*.

Other ASB Direction Relating to Forming an Opinion and Reporting on Financial Statements

The ASB provided the following detailed direction to the task force:

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- Paragraph A10 (application material to paragraph 13d) – change “enhances” to “facilitates.” The ASB discussed including a requirement for the auditor to consider whether the information in the financial statements is presented in a manner that facilitates users’ ability to identify necessary information.
- Paragraph 14 – consider including content from paragraph 13(d)(iii) from ISA 700 as it relates to the auditor’s evaluation about whether the financial statements achieve fair presentation.
- Paragraph 21 – continue to explore the inclusion of the city and state of the addressee in the auditor’s report.
- Paragraph A25A (application material to paragraph 21) – remove the last bullet because the ASB does not believe that would be a factor for determining the location of the addressee.
- Paragraph A37 (application material to paragraph 26c) – remove the word “relevant” because it is not included in AU-C section 200.
- Paragraph 31b – include “in accordance with the requirements of the applicable financial reporting framework” at the end of the requirement to clarify that the time period is specified in the financial reporting framework.
- Paragraph 36e – end the requirement after “reasonable period of time” to align with AU-C 570 and remove “[or the time period as set by the applicable financial reporting framework, when applicable].”
- Paragraph 37 – include “certain” before “... internal control related matters...” in the last sentence.
- Paragraph 58 – add “with respect to the prior period” to end of the first sentence.

Communicating Key Audit Matters in the Independent Auditor’s Report

Issue 6: Audits Conducted in Accordance with Standards of the PCAOB and GAAS

The ASB supported including a reference in the scope section of the proposed SAS to paragraphs 45 and A66 in proposed SAS *Forming an Opinion and Reporting on Financial Statements* to remind auditors that when reporting under PCAOB standards critical audit matters may apply rather than key audit matters.

Other ASB Direction Relating to Communicating Key Audit Matters in the Independent Auditor’s Report

- Paragraph 4 – add back that this SAS applies to an audit of a complete set of general purpose financial statements when the auditor is engaged to communicate key audit matters.
- Paragraph A22 (application material to paragraph 8b) – add back “especially in circumstances in which an entity’s practices are not consistent with others in the industry”

Modifications to the Opinion in the Independent Auditor’s Report

Issue 7: Disclaimer of Opinion and KAMs

The ASB agreed that the proposed SAS should not require the auditor to include a statement that the auditor is precluded from including the key audit matters section in the auditor's report when the auditor is engaged to communicate key audit matters but, due to matters identified during the audit, concludes that a disclaimer of opinion is appropriate in the circumstances and therefore is precluded from communicating KAM.

Other ASB Direction Relating to Modifications to the Opinion in the Independent Auditor's Report

- Paragraph 14 – expand reference to paragraph 13 to include subsections “b” and “ii”
- Paragraph 29c – align wording with changes made to *SAS Forming an Opinion and Reporting on Financial Statements*

5. Other Information

Ms. Gantnier presented the agenda materials with respect to the ASB's discussion of the project to consider revisions to AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*. The Other Information Task Force (the “Task Force”) provided recommendations with respect to the reporting and performance requirements within the proposed revised standard, pursuant to the direction provided by the ASB at its meeting in July 2018. As directed at that meeting, a revised draft of the proposed standard was not presented.

The Task Force was directed by the ASB at its meeting in July 2018 to retain the performance requirements from extant AU-C section 720 but to place such requirements in a model that was true to the “spirit” of ISA 720 (Revised). Further, the Task Force was directed to revise the reporting requirement so that it is applicable only when all the other information is received as of the date of the auditor's report on the financial statements.

With respect to reporting requirements, major conclusions reached were as follows:

- Require reporting on other information only when the annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon. Input will be sought from the AICPA's Not-for-Profit Expert Panel about whether the Expert Panel envisions any potential issues with the requirement.
- Structure the reporting requirement to permit, as in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, auditor's reports without the paragraph on other information.
- Revise the proposed report wording to align with the proposed performance requirements. If the proposed performance requirements and definitions reference *misstatement of the other information*, the report should not reference *inconsistencies* and *material*

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misstatements of fact. The ASB concluded that the proposed report language that conforms to the language for an accountant's compilation report on financial statements is not the most suitable for this purpose as that wording does not include that procedures are performed. The report language with respect to required supplementary information and language in the Ernst & Young comment letter on the exposure draft of the proposed standard were suggested as sources for the revision.

With respect to performance requirements, major conclusions reached were as follows:

- Rather than the Task Force proposal that the definition of *misstatement of the other information* be revised so that it incorporates the definitions of *inconsistency* and *material misstatement of fact* from extant AU-C section 720, use the definition of *misstatement of the other information* from ISA 720 (Revised) with the parenthetical phrase “(including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information)” omitted. In addition, the sentence “Omitted information or obscured information does not refer to information that is required to be presented but instead to incomplete information that, without disclosure, results in the other information being misleading” should be deleted from the proposed corresponding application guidance. Application guidance would be included stating that a *misstatement of the other information* may be an *inconsistency* or a *material misstatement of fact*, incorporating the definitions from extant AU-C section 720.
- Retain the proposed requirement for the auditor to consider other information against *the auditor's knowledge obtained in the audit*. The Task Force had proposed deleting it to address concerns raised at the July 2018 ASB meeting that it would widen the expectation gap. However, ASB members stated that removal of the requirement inappropriately limits the auditor's consideration of other information and the proposed standard would no longer be consistent with the “spirit” of ISA 720 (Revised). The ASB believes that the exposure draft of the proposed standard includes sufficient application guidance on how to apply the proposed requirement.

The ASB directed that the Task Force present a revised draft of the proposed standard at its meeting in January 2019, if practicable.

6. AU-C 800

The ASB discussed reactions to a proposal to eliminate a requirement in AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, regarding regulatory basis financial statements intended for general use. In this circumstance, the auditor is required to opine both on whether the financial statements are presented fairly in accordance with generally accepted accounting principles and on whether the financial statements are prepared in accordance with the special purpose framework (this is referred to as a *dual opinion*).

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The ASB proposed eliminating the dual opinion and allowing the auditor to report only on the regulatory basis of accounting, even when the financial statements would be widely distributed as the entity's primary financial statements, if the circumstances indicate that the framework used is a compliance framework (which is not currently acknowledged in GAAS).

At the September 2018 GASB-AITF liaison meeting and in a recent meeting with the AICPA State and Local Government Expert Panel, representatives of the GASB expressed concerns about adopting the compliance framework (and essentially eliminating the need for a dual opinion) because it could result in reporting circumstances that may be viewed negatively in the context of public interest objectives.

To address these concerns, ASB members suggested that the task force consider

- including a requirement for the auditor to consider whether the framework is appropriate
- including application guidance to help the auditor determine whether the specified framework is an appropriate framework, for example, whether the framework was developed via due process
- requiring reports on such financial statements to contain an alert describing the purpose for which the financial statements are prepared and indicating that they may not be suitable for another purpose

The ASB also suggested that the task force consider whether there are circumstances when use of such reports should be restricted and obtain further input from state regulators such as members of the National Association of State Auditors, Comptrollers, and Treasurers, and users of regulatory financial statements.