



ASB Meeting, May 20-23, 2019

The ASB met in Nashville, Tennessee, on May 20-23, 2019. The ASB thanked outgoing members Ilene Kassman, Rich Miller, Dan Montgomery, Jere Shawver, and Chad Singletary for their years of service. As part of the ASB's ongoing liaisons with other professional bodies, Jim Kaiser, PCAOB board member, joined the meeting to enhance the communication and interaction between the ASB and PCAOB. Mr. Kaiser discussed various aspects of the PCAOB's new strategy, including stakeholder engagement, technology, and the use of guidance to help enhance their standard-setting efforts.

Below is a summary of the topics discussed.

Audit Evidence

The ASB voted to ballot for exposure a proposed SAS *Audit Evidence*, which would supersede AU-C section 500, *Audit Evidence*. The objective of this project is to revise the AU-C section to address the evolving nature of business and issues such as use of emerging technologies, audit data analytics (ADA), the application of Professional Skepticism, the expanding use of external information sources as audit evidence, and more broadly the accuracy, completeness, and reliability of audit evidence. The exposure draft is expected to be issued by mid-June with a 90-day comment period.

Significant changes made at the May meeting from the January discussion draft were as follows:

- The ASB removed a statement in the introduction section of the proposed SAS that indicated that no incremental documentation requirements beyond those requirements in other auditing standards were being created by the proposed SAS. Instead, the ASB decided to include a specific question in the Explanatory Memorandum to the exposure draft asking whether respondents believed incremental documentation requirements would result from applying the requirements of the proposed SAS.
- The ASB decided that if approved, the proposed SAS would be effective for audits of financial statements for periods beginning on or after June 15, 2021
- The objective of the proposed SAS was amended to make it more succinct.
- Certain amendments to the definitions were made, most notably to the definition of "audit evidence" to align more closely with extant.

Other Information

The ASB voted to issue as final SAS *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. The standard will be effective for audits of financial statements for periods ending on or after December 15, 2020 and will supersede AU-C section

720, *Other Information in Documents Containing Audited Financial Statements*. This standard will benefit users of audited financial statements and other information by:

- Improving audit quality by bringing greater consistency regarding auditors' consideration of other information and reducing diversity in practice with respect to documents that are considered to be within the scope of the SAS;
- Increasing the value of the audit, without changing its scope, in a cost-beneficial manner, through enhancing the auditor's responsibility with respect to the other information; and
- Narrowing potential or existing expectation gaps through requiring auditors to articulate in their reports their responsibilities under the SAS, and the outcome of their work relative to the other information when, at the date of the auditor's report, the auditor has obtained all of the other information

The standard includes conforming amendments to SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, and certain other AU-C sections that address other information.

Materiality

The ASB voted to issue a proposed SAS and a proposed SSAE, both titled *Amendments to the Description of the Concept of Materiality*, for exposure. The proposed standards contain amendments intended to eliminate inconsistencies between the description of materiality in AICPA *Professional Standards* and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. The ASB made no substantive changes to the draft presented at the meeting. The exposure draft is expected to be issued by mid-June with a 60-day comment period.

Estimates

The ASB discussed proposed SAS *Auditing Accounting Estimates and Related Disclosures*, which would supersede AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. The ASB discussed issues and reviewed requirements and application material to be included in the proposed SAS.

The ASB agreed to the following approach for developing the proposed SAS:

- Converge with ISA 540 (Revised)
- Include the requirements and application material from ISA 540 (Revised) relating to risk assessment, rather than including it in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Further consideration of including this content in AU-C section 315 may be made as part of the ASB's risk assessment project.

- Do not include the requirements and application material relating to written representations from ISA 540 (Revised); instead, amend AU-C section 580, *Written Representations*, to converge with that content.
- Propose limited amendments to AU-C section 501, *Audit Evidence — Specific Considerations for Selected Items*, to address any conflicts with the proposed SAS.

The ASB supported consideration of a future project that would take a holistic approach to the auditing guidance relating to investments when the valuations are based on the investee's financial results and for investments in derivative investments and securities measured or disclosed at fair value.

The ASB will discuss the proposed SAS at the July 2019 ASB meeting with the objective of voting to ballot as an exposure draft.

EBP Auditor Reporting

The ASB approved amendments to conform the final balloted SAS *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (EBP SAS) to SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. The EBP SAS is expected to be issued in final form early in the third quarter of 2019.

Attestation Standards

The ASB discussed proposed Statement on Standards on Attestation Engagements (SSAE), *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification and provided input and direction to the Attestation Standards Task Force as the Task Force continues to work towards developing a final standard that provides flexibility and is in the public interest.

Other Items Discussed

The ASB discussed issues related to proposed revisions to the AU-C 800 series sections, including amendments to conform with SAS No. 134, and consideration of introducing the concept of a compliance framework. The ASB also discussed issues related to the International Audit and Assurance Standard Board's exposure draft that included a proposal to revise ISA 315, *Identifying and Assessing the Risks of Material Misstatements*.

The next meeting of the ASB will be July 22-25, 2019, in Dallas, Texas.