AUDITING STANDARDS BOARD (ASB)
Meeting Highlights
March 11, 2020
Teleconference

MEETING ATTENDANCE

ASB Members
Mike Santay, Chair
Brad Ames
Monique Booker
Patricia Bottomly
Jay Brodish
Joseph Cascio
Harry Cohen
Jeanne Dee
Audrey Gramling
Tracy Harding

AICPA Staff
Bob Dohrer, Chief Auditor—Professional Standards & Services
Linda Delahanty, Senior Technical Manager—A&A Standards (by phone)
Mike Glynn, Senior Technical Manager—A&A Standards
Ahava Goldman, Associate Director—A&A Standards
Judith Sherinsky, Senior Technical Manager—A&A Standards
Teighlor March, Asst. General Counsel—General Counsel & Trial Board
Andy Mrakovic, Technical Manager—A&A Standards (by phone)

Observers
Peter Alfele, CliftonLarsonAllen LLP
Sally Ann Bailey, Deloitte & Touche LLP
Marilyn Brindle, Eide Baily
Mary Foelster, AICPA, Governmental Accounting & Auditing
Lynford Graham, Lynford Graham, CPA
Harrison Greene, Federal Deposit Insurance Corporation
Josie Hammond, RSM US LLP
Kathleen Healy, PwC
Matthew Hodder, SEC
Kristy Illuzzi, AICPA, CPEA
Ilene Kassman, KPMG LLP
Carrie Kostelec, Wolters Kluwer
Nick Kostoff, Ernst & Young
Jennifer Lightfoot, Eide Bailly, LLP
Steve Morrison, CohnReznick LLP
Liz Olson, BDO USA LLP
Alison Parker, Thomson Reuters
Joe Paulus, Wipfli LLP
Rick Reisig, Anderson ZurMuehlen
Laura Schuetze, Grant Thornton LLP

Absent
Matthew Hodder, SEC
Dora Burzenski
Larry Gill
Gaylen Hansen
Aaron Saito
Chair and Chief Auditor Report

Mr. Santay and Mr. Dohrer discussed the April ASB meeting, which is scheduled to be held in at Grant Thornton’s office in Chicago. The situation continues to be monitored; if the meeting is not held at Grant Thornton, it will be held remotely. Should the meeting be held in-person, the ability to participate through video call will be provided.

1. 900 series
   Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137

The ASB discussed proposed SAS Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137, as revised to respond to certain comments in comment letters on the ED and other comments by ASB members. After directing that changes described below be made, all 15 ASB members in attendance voted unanimously to ballot the proposed revised SAS as a final SAS.

The significant feedback and conclusions reached were as follows:

AU-C 730, Required Supplementary Information

- Revise paragraphs .08 and .09 and the illustrative reports in paragraph .A3 of AU-C section 730 to require a statement that management is responsible for the required supplementary information.

AU-C 930, Interim Financial Information

- Retain the heading “Basis for Review Results” in the auditor’s review report, rather than title the section “Auditor’s Responsibility.” Although the latter title is consistent with other auditor reporting standards and contrasts with the section titled “Responsibilities of Management for the Interim Financial Information”, the ASB concluded not to use a heading with the term “Auditor” so as not to mislead a user of the report that an opinion was issued on the interim financial information.

AU-C 935, Compliance Audits

- Paragraphs 11, 30g, and 43: The last phrase of the definition of material noncompliance was revised to read “…it would influence the judgment made by a reasonable user of the report on compliance about the entity’s compliance with the requirements of the government program as a whole by a reasonable user of the report on compliance...
• Paragraph A37, delete the beginning of the sentence until the words “Government Auditing Standards”.


• Paragraph .64f.ii: Remove the statement “internal control over financial reporting is not effective if a material weakness exists” from the auditor’s responsibilities section of the auditor’s report on ICFR because it is not an auditor responsibility and AU-C section 940 provides sufficient guidance on reporting when a material weakness exists.

• Paragraph 76:
  o Remove the requirement for the placement of the information about the material weakness in a separate section in the auditor’s report to allow for auditor’s to use their professional judgment.
  o Add a new requirement (paragraph .76b.) to include a statement that “if one or more material weaknesses exist, an entity’s internal control over financial reporting cannot be considered effective.”
  o Retain illustration 3 as proposed and include footnotes to explain that the placement of this information is not required by GAAS.

• Paragraph 80: Add application material to better explain the interplay between “additional information” and “other information” as defined in AU-C section 720

Effective Date

The ASB discussed whether it continued to support an effective date consistent with SAS No. 134 or whether the effective date should be later with early implementation permitted. The ASB concluded that it is appropriate to have an effective date consistent with SAS No. 134.

In addition, various editorial changes to the proposed SAS were made by the ASB at the meeting.

2. Estimates

Ms. Healy led the ASB in a discussion of proposed SAS Auditing Accounting Estimates and Related Disclosures. Significant comments or observations by the ASB members were as follows:

In particular, the ASB discussed the following topics contained in the issues in agenda item 2 and provided the following direction to the Estimates Task Force (task force):
• **Fair Presentation** (Paragraph 36): The ASB directed the task force to consider moving the proposed new content to application material rather than including as part of the requirement to better align with AU-C 700, *Forming an Opinion and Reporting on Financial Statements*.

• **Fair Value Measurements**: After discussing the definition of an accounting estimate in paragraph 11 of the proposed SAS, the ASB continued to support retaining as application material, in paragraph A14, that “a fair value measurement is a form of accounting estimate.” The ASB discussed the term “fair value measurement” as used in generally accepted accounting principles as promulgated by the Financial Accounting Standards Board (GAAP) and asked the task force to consider ways to better link to the accounting framework terminology.

• **Effective Date**: The ASB discussed the importance of aligning the effective date of the proposed SAS with the Risk Assessment project to converge AU-C section 315 with ISA 315 (Revised 2019). The ASB also discussed whether the proposed Audit Evidence SAS should have the same effective date and was supportive of exploring a different effective date for the Audit Evidence SAS. The ASB asked the task force to give further consideration to options for an effective date, including whether to use a beginning-of-year or end-of-year convention.

• **Scope and Structure of the Proposed SAS**: The ASB agreed with the task force’s recommendation to propose amendments to the Estimates SAS, when voted final, to align with the risk assessment project, and for those proposed amendments to be included in the risk assessment exposure draft. The task force will draft the proposed amendments.

• **Retrospective Review** (Issue #1): The ASB discussed whether further clarification is needed in response to the comments received on the exposure draft relating to paragraph 13 of the proposed SAS and whether the application material in paragraph A58 and the requirement in paragraph 13 conflict. The ASB concluded that no changes to the proposed SAS as exposed were necessary in this regard.

• **Communication With Those Charged with Governance** (Issue #2): The ASB continued to support aligning the structure of the proposed SAS with ISA 540 (Revised) and retaining appendix B of the proposed SAS in the proposed SAS, rather than placing the content of Appendix B in AU-C section 260. The ASB asked the task force to consider ways to clearly show the interaction between AU-C 260 and appendix B of the proposed SAS.

The following are other areas of the proposed SAS that were discussed by the ASB:

• Paragraph 4 — The ASB asked the task force to further clarify the separate assessment of inherent and control risk and proposed specific wording at the meeting.

• The ASB agreed with the proposed changes in paragraphs 21, 29, 31, A1, A27, A33, A56, A57, A82, A126, A128 and A146
Paragraph 38 — The ASB expressed concerns regarding the extent of documentation needed. The ASB asked the task force to remove “(whether related to inherent risk or control risk)” from paragraph 38b. because the application material adequately explains the expectation and this parenthetical content may cause more confusion if retained.

Paragraph A31 — The ASB questioned whether the proposed changes to paragraph A31 would change the intent of ISA 540 (Revised), because a consideration of whether “those charged with governance are independent from management” may be different from whether “those charged with governance are involved in managing the entity”. The ASB asked the task force to reconsider the proposed edits to this paragraph and to consider whether the meaning of the paragraph has been changed.

Paragraph A61 — The ASB discussed whether, in the context of the retrospective review, the auditor would only reassess control risk and not consider inherent risk. The ASB noted that in some situations the auditor may not reassess control risk but rather may determine that more persuasive audit evidence needs to be obtained. The ASB asked the task force to reconsider the guidance in this paragraph.

The Task Force will present an updated proposed SAS at the ASB meeting scheduled for April 27-30, 2020 with the aim of finalizing the proposed SAS as a final standard in that meeting.