



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

May 18-21, 2020

Videoconference

MEETING ATTENDANCE

ASB Members

Mike Santay, *Chair*

Brad Ames

Monique Booker

Patricia Bottomly

Dora Burzenski

Jay Brodish

Joseph Cascio

Harry Cohen

Jeanne Dee

Audrey Gramling

Larry Gill

Gaylen Hansen

Tracy Harding

Jon Heath

Kristen Kociolek

Sara Lord (5/21 only)

Alan Long

Marcia Marien

Aaron Saito

AICPA Staff

Bob Dohrer, *Chief Auditor—Professional Standards & Services*

Linda Delahanty, *Senior Technical Manager—A&A Standards*

Mike Glynn, *Senior Technical Manager—A&A Standards*

Ahava Goldman, *Associate Director—A&A Standards*

Hiram Hasty, *Associate Director—A&A Standards*

Judith Sherinsky, *Senior Technical Manager—A&A Standards*

Teighlor March, *Asst. General Counsel—General Counsel & Trial Board*

Andy Mrakovcic, *Technical Manager—A&A Standards*

Note: The meeting was open to observers, whose names are not listed.

Chair and Chief Auditor Report

Mr. Santay provided an update on recent activities, including the status of the project on noncompliance with laws and regulations. Mr. Dohrer informed the ASB about the AICPA's efforts to provide guidance on dealing with the pandemic and about the AICPA's Enhancing Audit Quality project's focus for the upcoming year. He also provided an update on the activities of the IAASB.

The highlights of the January, March and April 2020 ASB meetings were approved unanimously.

Mr. Dohrer thanked seven members of the ASB whose terms have ended—Mr. Brodish, Ms. Burzenski, Mr. Gill, Mr. Hansen, Mr. Long, Ms. Marien, Mr. Saito — for their years of service. He also thanked Mr. Santay, whose term as Chair is ending after four years, for outstanding service.

1. Audit Evidence

Mr. Brodish led the ASB in a discussion of proposed SAS *Audit Evidence*.

The ASB was supportive of the changes proposed by the Task Force to

- the introduction, objective, and requirements sections of the proposed SAS.
- the definition of audit evidence to incorporate the notion that audit evidence results from the performance of audit procedures, with some editorial changes.
- the application material dealing with automated tools and techniques
- the inclusion of an exhibit illustrating how an audit data analytic may accomplish the objectives of a risk assessment and substantive audit procedure simultaneously, with some editorial changes.
- certain paragraphs to further emphasize that the application of the proposed SAS assists the auditor in concluding whether sufficient appropriate audit evidence has been obtained in accordance with AU-C section 330.
- reorder application material content and of various other edits proposed by the Task Force.
- the other conforming amendments proposed, including the relocation of management’s specialists content to AU-C section 501. The ASB suggested revisions to the conforming amendment proposed to AU-C section 330 to further highlight the application of professional skepticism when designing audit procedures to obtain audit evidence.

The ASB unanimously voted to ballot the proposed SAS for issuance as a final standard. The effective date will be for audits of financial statements for periods ending on or after December 15, 2022.

2. Estimates

Ms. Burzenski led the ASB in a discussion of proposed SAS *Auditing Accounting Estimates and Related Disclosures*.

The ASB agreed

- that the effective date should be for audits of financial statements for periods ending on or after December 15, 2023.
- to the proposed changes to paragraph 3 to further clarify that fair value measurements are a form of accounting estimate.
- with including, in paragraph A143, the statement that “the auditor’s professional judgement concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework” as application material to paragraph 36.

- to the proposed change in the third bullet of paragraph A30 to remove the phrase “are independent from management” because the remaining content adequately captures the intent of that bullet.
- to replace “reassess control risk” with “may need to reconsider their risk assessment” in paragraph A60.
- to the proposed changes to paragraph 1 in *Appendix B – Communication with Those Charged With Governance*, to reference to the related content in AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*.

Significant changes to the proposed draft presented to the ASB members at the meeting were as follows:

- Paragraph 31 – change “other than those procedures” to “including those procedures”
- Paragraph A34 – add back “significant” before estimate to avoid unnecessary differences from ISA 540 (Revised)

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

3. Attestation Standards

Ms. Dee, chair of the Attestation Standards Task Force, presented revised drafts of AT-C sections 105 and 205 as well as a new proposed attestation standard tentatively designated as AT-C section 206, *Direct Examination Engagements*.

AT-C Section 105

The ASB discussed

- whether the practitioner obtains assurance when measuring or evaluating the underlying subject matter. (Paragraph A2 states that the practitioner’s objective in a direct examination engagement is to obtain reasonable assurance, just as it is in an assertion-based examination engagement.) Bob Dohrer, AICPA Chief Auditor, noted that in order for the practitioner to express an opinion in a direct examination engagement, the practitioner must have obtained evidence. In a direct examination engagement, the evidence obtained to support the practitioner’s measurement or evaluation of the underlying subject matter and the evidence to support the practitioner’s opinion are obtained concurrently.
- that in a direct examination engagement, attestation risk consists not only of the risk that the practitioner will express an inappropriate opinion or conclusion when the subject matter is materially misstated, but also the risk that the practitioner will not measure or evaluate the underlying subject matter in accordance with the criteria.

ASB members directed that the following revisions be made:

- Clarification of the interaction between AT-C section 205 and AT-C section 206, specifically which requirements in AT-C section 205 are to be applied to a direct

examination engagement. The language in paragraphs .03, A2, and .09 of AT-C section 105 and in related paragraphs in AT-C 206 is inconsistent and therefore confusing, for example, AT-C section 105

- paragraph .03 states that AT-C section 206 requires the practitioner to apply the *applicable requirements in AT-C section 205, adapted as necessary*, and also states that the nature of a direct examination engagement *may preclude* a practitioner from applying *certain requirements in AT-C section 205* to a direct examination engagement.
- paragraph .A2 states that in a direct examination engagement, obtaining reasonable assurance is the benchmark the practitioner uses for determining in what way and the extent to which *AT-C section 205 may need to be applied and adapted*.
- paragraph .09a indicates that in conducting an attestation engagement, one of the overall objectives of the practitioner is to apply the *requirements relevant to the attestation engagement*.
- The task force consider replacing the term *review engagement* with the term *assertion-based review engagement* to clarify that this is not a direct engagement.
- The word *only* be deleted from paragraph 2b which indicates that a direct examination is one in which only the practitioner measures or evaluates the underlying subject matter against the criteria.
- The example at the end of paragraph .02 about a responsible party that has not made an estimate be deleted from AT-C section 105 and retained in AT-C section 206.
- Item b in paragraph 9 be added back to the list of objectives in an attestation engagement.
- Instances identified in AT-C section 105 where the terms *underlying subject matter* and *subject matter information* may have been used incorrectly be corrected and the document be reviewed for other such occurrences.

AT-C Section 206

The ASB showed support for a separate AT-C section that addresses direct examination engagements.

The ASB discussed

- the accuracy of the statement in paragraph .02 that in assertion-based examination engagements a party other than the practitioner measures or evaluates the underlying subject matter against the criteria because in an assertion-based examination engagement the practitioner also measures or evaluates the underlying subject matter.
- that the text at the end of paragraph .08 regarding which requirements in AT-C section 205 are to be applied to a direct examination engagement is inconsistent with requirements in AT-C section 105 and section 205 because those sections indicate that the requirements in AT-C section 205 apply to all examination engagements.

ASB members directed that the following revisions be made:

- An application paragraph be linked to paragraph .02 indicating that in a direct examination engagement the practitioner takes responsibility for the outcome of the measurement or evaluation of the underlying subject matter.
- Paragraph .04 clarify whether the procedures performed to measure or evaluate the underlying subject matter against the criteria can be distinguished from the procedures performed to accumulate sufficient appropriate evidence to express an opinion.
- The portion of the objective in paragraph .06a be revised to state “to measure or evaluate the underlying subject matter and present the results.”
- The following precondition for performing a direct examination engagement be deleted from paragraph .07 and incorporated in application guidance linked to requirements related to engagement acceptance and continuance:

The responsible party is not required by law, regulation, or contract to measure or evaluate the underlying subject matter against the criteria or provide a written assertion regarding the outcome of that measurement or evaluation

- Paragraph .A8 be revised to state that if the practitioner recommends, develops, or assists in developing the criteria, the engaging party is required to take responsibility for the criteria.
- Paragraph .09 regarding the matters a practitioner should obtain an understanding of before accepting or continuing a direct examination engagement be considered for deletion because the bullets are not relevant if it is acceptable for the responsible party not to measure or evaluate the underlying subject matter.
- The illustrative reports in paragraph A28 be revised to refer to a direct examination and describe how a direct examination differs from an assertion-based examination.

AT-C section 205

ASB members directed that the following revisions be made:

- Paragraph .01 be revised to indicate that AT-C section 205 addresses assertion-based examination engagements and that the title of the section be changed to *Assertion-Based Examination Engagements*.
- The task force consider deleting the prohibition against early adoption of AT-C section 205 because very few changes are being made to the section.
- A bullet stating “the responsible party is responsible for the underlying subject matter” be added to paragraph 8d, which addresses the matters that should be included in the terms of engagement related to the responsibilities of the responsible party.
- Paragraph A5 be revised so that it is worded as a requirement, for example, “The practitioner should not accept an assertion from the responsible party if it is based solely on the practitioner’s procedures.”

- The last sentence of paragraph A6 be revised to state:
Regardless of whether the practitioner assists in developing or identifying the criteria, the engaging party is required to take responsibility for the criteria. if the engaging party agrees to the criteria that the practitioner recommended or assisted in developing
- The last sentence of paragraph A69 be revised to state the following:
Additionally, the practitioner may not have access to the evidence needed to support a conclusion that the responsible party has taken responsibility for the subject matter.
- The words “a portion of the” be deleted from paragraph A70.
- Guidance be provided in paragraph A73 to show how the practitioner should separate additional information in the practitioner’s report from the practitioner's opinion.
- The terms *underlying subject matter* and *subject matter information* be used in AT-C section 205 where reference to “subject matter” is intended to apply to one term or the other but not both terms, because the draft of AT-C section 105 and AT-C 206 makes this differentiation and it is not sufficient to leave it up to the practitioner to determine which term is meant.

The ASB is expected to vote to issue the proposed SSAE as a final standard at its next meeting, in July.

4. Risk Assessment

Mr. Harding led the ASB in a discussion of proposed SAS *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*.

Significant comments or observations by the ASB members were as follows:

ASB members continued to express concern about

- The difference between the proposed standard and the PCAOB standard, in particular with respect to gaining an understanding of the internal control components,
- How the work effort in gaining an understanding of the components of internal control differs from the work effort required to evaluate design and implementation of controls, and
- The differentiation between indirect and direct components of internal control.

The ASB directed the Task Force to consider the guidance in the PCAOB standard, AS 2110, in particular the guidance on evaluating controls that are relevant to the audit.

ASB members directed that the following revisions be made:

- Because of concern expressed about linking the concepts of completeness, accuracy, and validity of transactions to the financial statement assertions of existence and

occurrence in par. A9a, either delete that sentence, link these concepts to AU-C concepts such as authenticity or proper approval, or find a synonym for validity.

- Move the paragraph from extant AU-C section 313 that had been added as a requirement in paragraph 26 to application material to paragraph 25, which deals with the auditor's understanding of the information system and communication component of internal control
- Clarify paragraph A95, which is not clear because
 - The addition of language related to design and implementation seems unnecessary and confusing.
 - The paragraph seems better linked to the requirements related to the entity's risk assessment process.
 - It should specify the focus is on business risks *relevant to financial reporting*.

ASB members were supportive of

- the modifications to paragraphs A160 and A180 to clarify certain concepts
- the proposed conforming amendments, including the proposed amendment to paragraph 18 of AU-C section 330 to align the wording of this requirement with the corresponding requirement in the PCAOB standard.

The Task Force plans to discuss an updated draft of the proposed standard at the next ASB meeting in July 2020 with the intent of voting to issue the proposed standard as an exposure draft.

5. Quality Standards

Ms. Goldman provided an update on the status of the IAASB project on its proposed quality standards: International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), ISQM 2, *Engagement Quality Reviews* and International Standard on Auditing (ISA) 220 (Revised), *Quality for an Audit of Financial Statements*. She also discussed the expected timing of the ASB project to converge with those standards.

The ASB agreed

- to change the title of its Statements on Quality Control Standards to “Statements on Quality Management Standards” and, accordingly, change references to quality control in its standards to refer to quality management.
- with including the requirement in proposed ISQM 1 for monitoring procedures that include inspection of completed engagements, including inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

The ASB did not resolve whether

- to retain the extant requirement that the engagement quality review be completed before the report is released, rather than before when the report is dated as is required in proposed ISQM 2. Some members expressed support for retaining it because an engagement quality review is not an auditing procedure; others expressed support for converging with ISQM 2 in this regard.
- inspection of completed engagements could include completed portions of in-process engagements (“in-flight inspections”). The discussion included the following observations:
 - Allowing for “in-flight inspections” seems more forward-thinking and may enhance audit quality as firms develop new tools for identifying audit risks on engagements.
 - Allowing firms to “take credit” for pre-issuance inspections may encourage some firms to do more pre-issuance inspections, which would provide an opportunity for corrections before reports are issued.
 - Because of the iterative and interrelated nature of audit procedures, establishing what portion of an in-process engagement is considered completed may not be straightforward.
 - The risk exists that firms might only perform “in-flight” inspections and not inspect any completed engagements, and that the in-flight inspections might not address all areas of audit risk.