



Audit and attest standards update

The Auditing Standards Board (ASB) met on January 11-14, 2021 by videoconference.

The ASB voted to expose proposed revisions to AU-C Section 210, *Terms of Engagement*, which would “require a prospective successor auditor, once management authorizes the predecessor auditor to respond to inquiries from the auditor, to inquire of the predecessor auditor regarding identified or suspected fraud or noncompliance with laws or regulation (NOCLAR).” The Professional Ethics Executive Committee (PEEC) is also considering proposed revisions to the AICPA Code of Professional Conduct regarding NOCLAR, and the ASB plans to issue its exposure draft in conjunction with an anticipated exposure draft from PEEC by the end of February, with a comment period of at least 90 days.

The Board voted to expose proposed standards intended to convergence with the International Auditing and Assurance Standards Board’s (IAASB) recently finalized quality management standards. The exposure draft, *Proposed Quality Management Standards*, includes three interrelated proposed standards:

- Proposed Statement on Quality Management Standards (SQMS) *A Firm’s System of Quality Management*
- Proposed SQMS *Engagement Quality Reviews*
- Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

The proposed standards bring important changes to the way firms are expected to manage quality for its accounting and auditing practice. The proposed standards include a new proactive risk-based approach to effective quality management systems within firms, which improves the scalability of the standards because it promotes a system tailored to the nature and circumstances of the firm and its engagements.

The Board discussed comments received on proposed SAS *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*. The comment letters expressed support of the overall objectives of the proposed standard and the general direction of the project.

The Board expressed support for a project to permit practitioners to perform direct review engagements and requested that, as a first step, outreach be performed to practitioners who have performed attestation reviews and direct examinations to obtain feedback about how the direct examination would be scaled back if the practitioner were to be engaged to obtain only limited assurance.

The Board also heard an update on the IAASB’s project on revising its standard on group audits, and provided feedback on a draft comment letter relating to the IAASB Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public*

Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit.