



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

March 10, 2021

Videoconference

MEETING ATTENDANCE

ASB Members

Tracy Harding, *Chair*
Brad Ames
Monique Booker
Patricia Bottomly
Sherry Chesser
Harry Cohen
Jeanne Dee
Horace Emery
Audrey Gramling
Diane Hardesty
Robert Harris
Kathy Healy
Jon Heath
Clay Huffman
Kristen Kociolek
Sara Lord
Maria Manasses
Chris Rogers
Tania Sergott

AICPA Staff

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.

The ASB discussed issues arising from the comment letters received in connection with the Exposure Draft related to the proposed Statement on Auditing Standards (SAS), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*. Ms. Manasses led the presentation.

The objective was to continue the discussion of the feedback arising from the comment letters received in connection with the Exposure Draft and to obtain the Board's feedback with respect to select items prior to proposing revisions to address the feedback received.

The ASB's discussion was focused on matters that require the ASB's strategic direction, and the Task Force's preliminary views on certain matters raised by responders.

Significant comments or observations by the ASB members related to certain issues identified in some of the comment letters were as follows:

- **Understanding Processes and Controls Related to Journal Entries**—ASB members expressed the view that the edits proposed by the Task Force were not clear, including the addition to paragraph 25, and also questioned how the proposed edits converge with ISA

315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*. ASB members noted that paragraph 26(a)(ii) of the proposed SAS is substantially equivalent to the extant requirement in paragraph 32(a)(i) in AU-C section 240. It was noted that the extant requirement in AU-C section 240 is an incremental US GAAS requirement in comparison to ISA 240. Accordingly, the ASB agreed not to make the proposed edits suggested by the Task Force but requested the Task Force to align the requirements in the proposed SAS and AU-C section 240.

- **Definition of Relevant Assertion**—Ms. Manasses explained that comments received indicated that the proposed SAS is unclear about the definition of a relevant assertion and whether inherent risk is part of determining that there is an identified risk of material misstatement and, therefore, a relevant assertion. Comment letters and outreach sessions conducted by the Task Force also suggested that certain definitions, including the definition of a relevant assertion, are difficult to comprehend because they are difficult to navigate (that is, certain definitions build upon each other and multiple paragraphs need to be considered to understand them). To address these comments, the Task Force proposed options to the ASB, considering the definition in extant AU-C section 315, ISA 315 (Revised 2019), and PCAOB standards. After discussion, the ASB agreed with the option supported by the majority of the Task Force, which moves the related application material into the definition in the proposed SAS and does not use wording from sources other than the ISA. This option was preferred because the proposed SAS is converged with ISA 315 (Revised 2019), and using language from a different standard could create potential inconsistencies within the proposed SAS.
- **Definition of a Significant Class of Transactions, Account Balance, or Disclosure**—The outreach sessions suggested that certain definitions, including the definition of a significant class of transactions, account balance, or disclosure, are difficult to comprehend because, like the definition of a relevant assertion, they are difficult to navigate. The Task Force proposed edits to clarify. After discussion, the ASB directed the Task Force to consider adding application material, rather than making changes to the definition. The guidance would connect the definition of significant class of transactions, account balance, or disclosure to a risk of material misstatement at the assertion level (that is, a relevant assertion).
- **Clarifying the Concept of Reasonable Possibility**—Comment letters indicated that the term “reasonable possibility” is not sufficiently clear. More guidance was also requested to clarify where reasonable possibility lies on the spectrum of inherent risk. The majority of the Task Force suggested revisions to clarify the concept of “reasonable possibility” within the proposed SAS, as this concept is key to identifying and assessing risks of material misstatement. AU-C section 265 and AU-C section 501 already define the concept, so that description could be leveraged. The ASB debated the options provided by the Task Force and various views were expressed. After discussion, the ASB directed the Task Force to consider adding application material but to re-consider the various options proposed based on ASB feedback.
- **Audit Documentation Related to the Stand-Back Requirement**—A concern raised in comment letters and in outreach sessions relates to audit documentation with respect to

the stand back requirement. It was suggested that the proposed SAS should be clearer in terms of the nature and extent of documentation that would be needed in relation to the stand-back requirement. The Task Force considered including additional audit documentation guidance related to the stand-back requirement but determined that it may not add value and may not, in and of itself, be responsive to the comments received. As an alternative, the Task Force suggested that the issue can be more appropriately addressed in separate implementation guidance, leveraging the guidance in AU-C section 230 about the need to document a conclusion or the basis for a conclusion not readily determinable from the work performed or audit evidence obtained. After discussion, the ASB agreed that this matter could be better addressed in the Audit Guide.

- **Spectrum of Inherent Risk**—Stakeholders suggested, as part of the comment letters and outreach sessions, that additional guidance in the application material is needed to better illustrate the concept of the spectrum of inherent risk (for example, including examples of the schemes that would help operationalize the spectrum of inherent risk). The ASB debated the options provided by the Task Force. After discussion, the ASB directed the Task Force to consider adding application material that would illustrate a non-quantitative scheme to assess the spectrum of inherent, for example “high, medium, low.” This would be in addition to the quantitative scheme example in AU-C section 200 (that is, the use of percentages).

A revised draft will be presented to the ASB at its next meeting in May 2021, with the goal of voting to issue a final standard in August 2021.