

AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

October 16-19, 2017

Dallas, TX

MEETING ATTENDANCE

ASB Members

Mike Santay, *Chair*

Gerry Boaz

Jay Brodish

Dora Burzenski

Joseph Cascio

Larry Gill

Steve Glover

Gaylen Hansen

Tracy Harding

Dan Hevia

Ilene Kassman

Alan Long

Rich Miller

Dan Montgomery

Steven Morrison

Rick Reisig

Catherine Schweigel

Jere Shawver

Chad Singletary

AICPA Staff

Mimi Blanco-Best, *Assurance & Advisory*

Innovation

Linda Delahanty, *Audit & Attest Standards*

Mike Glynn, *A&A Standards* (10/16-17 only)

Ahava Goldman, *A&A Standards*

Hiram Hasty, *A&A Standards*

Kristy Illuzzi, *PCPS Technical Issues Committee*

Chuck Landes, *Professional Standards*

Teighlor March, *Assistant General Counsel*

Tammy Mooney, *Assurance & Advisory*

Innovation

Andy Mrakovcic, *A&A Standards* (by phone)

Judith Sherinsky, *A&A Standards*

Observers and Guests

Michael Auerbach, *U.S. Department of Labor*

Sally Ann Bailey, *Deloitte & Touche LLP*

Adam Barrow, *EY LLP*

Carole Burgess, *Thomson Reuters*

Janice Burns, *Thomson Reuters*

Fiona Campbell, *EY* (by phone, 10/18)

Jim Dalkin, *GAO* (10/17-19)

Rick Call, *Thomson Reuters*

Bob Dohrer, *RSM International* (by phone, 10/18)

Judy Goldberg, *EY LLP*

Bridget Gyofri, *KPMG LLP*

Kathy Healy, *PwC LLP*

Vicki Hellenbrand, *Baker Tilly Virchow Krause*

Jan Herringer, *BDO*

April King, *RSM US LLP*

Eric Lipnicky, *Thomson Reuters*

Nigyar Mamedova, *NASBA*

Darrel Schubert

Laura Schuetze, *Grant Thornton*

Mark Wells, *Thompson Reuters*

Matthew Zaun, *GAO* (10/16-17 only)

Texas Society of CPAs Professional Standards Committee:

Jerry Cross

Kathryn W. Kapka

William D. Schneider

Kenneth D. Sibley

James A. Smith

Richard J. Sowan

Chair's Report

Mr. Santay welcomed Mr. Landes and provided an update on recent activities, including the AITF's meeting with GASB and with FASB.

Mr. Landes thanked everyone for their support in his absence and provided an update on issues of interest.

The ASB unanimously approved the highlights of the July meeting and the ASB Operating Polices as revised.

1. Direct Engagements

Ms. Schweigel, chair of the Direct Engagements Task Force, led the ASB in a discussion of proposed revisions to AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; and 210, *Review Engagements*, to enable practitioners to perform examination and review engagements without having to request a written assertion from the responsible party.

The proposed revisions to AT-C sections 205 and 210 deemphasize the importance of an assertion in an examination and review engagement. Instead of requesting an assertion from the responsible party, the practitioner is required to request a representation from the responsible party about whether the responsible party has measured or evaluated the subject matter against the criteria and, if so, the results of that measurement or evaluation. The proposed drafts of AT-C sections 205 and 210 do not require the practitioner to withdraw from the engagement if that representation or any other representation is not obtained.

The ASB agreed with this change but asked that the notion of the assertion be retained and introduced at the beginning of AT-C sections 205 and 210 because some extant subject matter AT-C sections, for example, AT-C section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, require the practitioner to obtain an assertion from the responsible party and the ASB has not yet determined whether that requirement will be retained in these AT-C sections.

The ASB agreed that the AT-C sections should adopt the term *limited assurance engagement*, as is used in ISAE 3000, rather than *review engagement*.

2. Consideration of PCAOB Standards

Ms. Herring, chair of the Disclosures Task Force, let the ASB in a discussion of the agenda materials. This project arose from the ASB's strategy of considering the standards of other standard-setters, such as the PCAOB, in its continuing efforts to promulgate high-quality, objective audit and attestation standards that inspire public trust.

The ASB reviewed the proposed amendments. The ASB noted that a primary consideration in developing AS 2701, *Supplementary Information*, related to the PCAOB's oversight of brokers and dealers in securities. After consideration of the PCAOB's objective and evaluating the

sufficiency of the procedures and reporting in existing GAAS, the ASB concluded that no amendments to GAAS are necessary in relation to AS 2701.

The ASB directed the task force to make the following changes:

Amendments to AU-C section 550

- Par. 14: make the proposed amendment to bullet (b) new bullet (c), and insert “modified or terminated” in the last bullet
- Change “company” to “entity” where used in proposed amendments
- Par. 17: Delete proposed amendment in first sentence, because it is included in par. 23
- Par. A22 (as renumbered): strikethrough “and arrangements outside the normal course of business”
- Par. A23: move to par. A35
- Par. A27: delete the insertion of “unusual”; delete “outside the entity’s normal course of business” and replace with “that may be significant unusual transactions”
- Par. A53: delete the last two bullets and add the content to bullets above

Amendments to AU-C section 260

- Par. 12: Move inserted text from bullet (a) and make new bullet (b). Add application material to par. 12 containing the proposed amendment that had been included in the appendix to AU-C section 250.
- Par 13b: change the proposed amendment to read “and that uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statements under audit”
- Add a question for respondents about whether the procedures required as a result of the proposed amendment to par. 32 are overly prescriptive and whether these procedures would be better placed as application material.

Amendments to other AU-C sections

- AU-C section 240, par.A19: delete “a significant unusual transaction”
- AU-C section 240, par.A54: 5th bullet, strike “previously unidentified” and insert, at the end of the bullet, “relationships or transactions with related parties previously undisclosed to the auditor”. Revise other bullets for consistent wording.
- AU-C section 580, par. 17a and 21m: insert “adequately” before “disclosed”
- AU-C section 580, par. A55: delete “occurrence of” from the proposed new bullets
- Delete all proposed footnotes referring to the definition of “significant unusual transactions” proposed to be added to AU-C section 240
- Change “business rationale” to “business purpose” for consistency throughout GAAS

In addition, the ASB directed that editorial changes be made to the exposure draft wrap material, and that the comment period and effective date be aligned with the auditor reporting exposure draft.

Mr. Glover moved to ballot the exposure draft for issuance. Mr. Harding seconded, and the motion was passed unanimously.

3. Audit Evidence

Mr. Dohrer, chair of the ASB Audit Evidence Task Force, provided an update to the ASB about the task force that has been formed to address audit evidences. Its initial objective is to consider revisions to AU-C section 500, *Audit Evidence*. Issues to be considered are data analytics, use of technology, professional skepticism, and accuracy and completeness of audit evidence given the changes in technology over the past years. Mr. Dohrer also chairs the AICPA Assurance Services Executive Committee (ASEC) and the International Audit and Attest Standards Board (IAASB)'s Data Analytics Working Group. Other members of the task force include representatives from ASB, ASEC and TIC and observers from the IAASB. The ASB suggested that the task force seek input from those with expertise in IT audit and in blockchain.

4. Materiality

Mimi Blanco-Best provided an update to the ASB about efforts to address requests for better guidance for materiality on non-financial information. ASEC has formed a task force to develop non-authoritative guidance material on this subject. The project is starting with a small group of CPAs who specialize in attestation engagements tasked with developing examples of how consideration of materiality affected planning, performance and consideration of material misstatements. Once examples have been developed and put into a template, the task force will be expanded and will begin developing principles based on the examples.

5. Outreach

As part of its outreach efforts with its stakeholders, the ASB met with representatives of the Texas Society of CPAs Professional Standards Committee, to get their views on the ASB's current projects and other matters of mutual interest. Specific topics discussed included feedback about audit quality and how to make sure auditors have the appropriate competency, as well as the ASB's upcoming exposure draft on auditor reports.

6. Auditor Reports: Reporting on ERISA Plan Financial Statements

Mr. Schubert, chair of the EBP Reporting Task Force, led the ASB in a discussion of agenda item 6 relating to reporting on ERISA plan financial statements. The ASB provided the task force with the following feedback:

Issue for Consideration #1 — Required Procedures When an ERISA-Permitted Scope Limitation is Imposed

The ASB supported redeliberating the procedures relating to the certified information relative to the type of opinion required to be issued.

Issue for Consideration #2 —The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation

The ASB directed the task force to continue to explore a new form of report for an ERISA plan audit when there is an ERISA-permitted audit scope limitation and asked the task force to explore ways to align the report to the existing GAAS reporting framework.

Issue for Consideration #6 — *Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements*

The ASB asked the task force to consider revising the proposed SAS to better align the testing of certain plan provisions relating to the financial statements to the audit of the ERISA-plan financial statements, taking into consideration the auditor's risk assessment. The ASB generally agreed that the provisions to be tested will depend upon the auditor's risk assessment and the type of plan being audited. Further, the ASB generally agreed that findings from such testing should not be required to be communicated in the auditor's report but could be communicated to those charged with governance and asked the task force to explore ways to develop such a framework. The ASB also discussed the possibility of aligning such a communication with existing requirements to communicate with those charged with governance, including those that relate to internal control over financial reporting. The ASB asked the task force to consider ways to provide guidance in these areas outside the auditing standards, for example, possible auditing interpretations.

7. Assessing the Risks of Material Misstatement

Ms. Campbell, chair of the IAASB's ISA 315 Task Force, presented an update about IAASB's project to revise ISA 315, *Identifying And Assessing The Risks Of Material Misstatement Through Understanding The Entity And Its Environment*. Mr. Harding, chair of the ASB's Risk Assessment Task Force (RAT Force) provided its perspective on those changes.

IAASB Update

Mr. Hasty and Mr. Landes provided an update on IAASB activities, including its project to revise ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*.