



## Agenda Item 2

### Convergence — PCAOB

#### Objective of Agenda Item

To consider proposed amendments to AU-C sections to address eliminating unnecessary differences with PCAOB standards not considered during the Clarity project, specifically:

1. AS 18 (AS 2410), *Related Parties*.
2. Conforming amendments in Release 2014-002, AS 18, both those relating to “significant unusual transactions” and others
3. AS 16 (AS 1301), *Communications with Audit Committees*
4. Conforming amendments in Release 2012-004, AS 16
5. AS 17 (AS 2701), *Supplementary Information*
6. Conforming amendments in Release 2013-008, AS 17

#### Task Force

Task Force members are:

- Jan Herringer, Chair
- Bridgett Gyorfi
- Laura Schuetze
- Courtney Drake
- Dan Wernke

#### BACKGROUND

##### Scope of Project

The ASB's Strategic Plan calls for convergence with the standards of the IAASB and avoidance of unnecessary differences with the standards of the PCAOB. Since the ASB completed its auditing standards clarity project, which clarified GAAS and converged it with the ISAs, the PCAOB has issued three auditing standards — AS 16, *Communication With Audit Committees* (AS 1301), AS 17, *Supplementary Information* (AS 2701) and AS 18, *Related Parties* (AS 2410). The release of those auditing standards included conforming amendments to other PCAOB auditing standards.

At its May 2017 Meeting, the ASB considered proposed amendments to GAAS relating to those three standards. Proposed amendments relating to conforming amendments included in the release of those standards were brought to the ASB in July but were not discussed due to time limitations.

### **Criteria Used to Determine an Unnecessary Difference**

For each requirement in a PCAOB AS which the Task Force believes does not have an equivalent in GAAS, the Task Force considered the following:

- Does the requirement address something that is common to issuers and rare for non-issuers?
- Is the requirement more prescriptive than appropriate for principle-based standards?
- Does the requirement result in a performance difference?
- Is the requirement scalable?
- Would applying the requirement in GAAS audits result in higher audit quality?

### **MATERIALS PRESENTED**

- 2A – AS 18 (AS 2410) Compared to Requirements of GAAS
- 2B – AS 16 (AS 1301) Compared to Requirements of GAAS
- 2C – AS 17 (AS 2701) Compared to Requirements of GAAS
- 2D – AS 18 Conforming Amendments Compared to GAAS
- 2E – AS 16 Conforming Amendments Compared to GAAS (note: unchanged from July agenda materials)
- 2F – AS 17 Conforming Amendments Compared to GAAS (note: unchanged from July agenda materials)
- 2G – All amendments by AU-C section
- 2H – proposed Omnibus SAS (including wrap material)
- 2I – Supplement: AU-C 550 with proposed amendments\*
- 2J – Supplement: AU-C 240 and 260 with proposed amendments\*
- 2K – Supplement: AU-C 725 with proposed amendments\*

\* Supplemental material has been prepared for each AU-C section that has proposed amendments to four or more paragraphs so that the proposed amendments can be seen in the context of the entire AU-C section.

## ISSUES

### AS 18 (AS 2410), Related Parties

#### 1. Changes from May materials:

As directed by the ASB at its May meeting, the Task Force made the following changes to the amendments proposed in May:

- To converge with AS 2410 par. 5g, the proposed amendment to paragraph A14X was instead made as a requirement to paragraph 15.
- To converge with AS 2410 par. 13, changed “intercompany account balances” and “intercompany accounts” to “account balances with affiliated entities” and “accounts with affiliates”
- To converge with AS 2410 par. 14, added “summaries of actions of recent meetings for which minutes have not yet been prepared” to AU-C section 550 paragraph 16b; added requirements to AU-C section 550 paragraph 21 as further audit procedures responsive to the risk; and added additional application material to AU-C section 550 paragraph A22.
- For consistency, inserted “business” before “purposes” in AU-C section paragraph A35.

#### Question for the ASB

1. Does the ASB agree with the changes to amendments as set out above and shown in agenda item 2A?

#### 2. Conforming amendments – Release 2014-002, AS 18 (AS 2410)

Agenda item 2D has been revised from the material sent for the July ASB meeting. Release 2014-002, AS 18, has two appendices with conforming amendments to other PCAOB standards. The amendments in the matrix in agenda item 2D have been grouped by appendix and then placed in AU-C section order.

PCAOB Appendix 2 contains amendments regarding significant unusual transactions. These amendments

- Amend PCAOB Interim Standard AU sec. 316.66 to describe significant unusual transactions as significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature.
- Include, in PCAOB Interim Standard AU sec. 316.66-.67A, requirements for basic procedures for obtaining information for evaluating significant unusual transactions.

- Amend other PCAOB Interim Standard AU sections. To require the performance of specific procedures intended to improve the auditor's identification of significant unusual transactions, for example, by amending Auditing Standard No. 12 (AS 2110) to require the auditor to make inquiries of management and others.
- Include conforming changes to introduce a uniform description of "significant unusual transactions" throughout the PCAOB's standards.

The Task Force determined it appropriate to converge with the conforming amendments related to significant unusual transactions. PCAOB auditing standards do not have a definitions section, nor a glossary; accordingly, the PCAOB amendments state "significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature. ("significant unusual transactions")" upon first mention in each AU section. The Task Force discussed various options for convergence (defining the term "significant unusual transactions" in AU-C section 240; using the PCAOB wording exactly; or using the phrase without the words "significant unusual transactions") and decided to define the term "significant unusual transactions" in AU-C section 240 and refer to the definition in a footnote when using the term in other AU-C sections.

All GAAS sections were searched for variations of the phrase "significant transactions outside the normal course of business" to identify all instances of appropriate proposed amendments to use "significant unusual transactions". Amendments proposed as a result of this search are shown in Section III of agenda item 2D.

Appendix 3 of Release 2104-002 contains other conforming amendments, shown in Section II of agenda item 2D, which were evaluated in accordance with the convergence criteria.

#### **Question for the ASB**

2. Does the ASB agree with the proposed amendments in agenda item 2D?

#### **AS 16 (AS 1301), *Communications with Audit Committees***

### **3. Reconsideration of proposed amendments in light of Auditor Reporting Project**

At the May meeting, the Task Force became aware that the IAASB considered AS 16 in proposing amendments to ISA 260 as part of its Auditor Reporting project. Agenda Item 2B was revised to incorporate the proposed amendments to AU-C section 260 arising from the Auditor Reporting project (including for Disclosures), and the Task Force is proposing additional amendments based on consideration of those.

As noted in agenda item 2B, the ASB discussed the proposed amendment to paragraph .A42 to add application material suggesting communication of all matters required to be communicated by this section, at least orally if not in writing, prior to the release of the auditor's report. The ASB directed that this amendment not be proposed but that the exposure draft should describe this difference and ask respondents if the timing of communications required by AU-C section 260 should be revisited.

**Question for the ASB**

3. Does the ASB agree with the proposed amendments in agenda item 2B?

**4. Conforming amendments resulting from AS 16 (AS 1301)**

Most of the conforming amendments that result in a difference with GAAS result from requirements to communicate with the audit committee prior to the issuance of the auditor's report. Given the ASB's direction noted above, no converging amendments have been proposed.

**Question for the ASB**

4. Does the ASB agree with the disposition of the incremental requirements identified in agenda item 2E?

**Question for the ASB**

**AS 17 (AS 2701), *Supplementary Information***

**5. Changes from May materials**

As directed by the ASB at its May meeting, the Task Force made the following changes to the amendments proposed in May:

- To align with AS-17, par. 7-8: amend paragraph A13 of AU-C section 725.
- To align with AS 17 par. 10d; the ASB accepted the proposed amendment and further suggested that bullet d of paragraph .09 be amended to include a reference to testing the completeness and accuracy of the supplementary information.

- To align with AS-17 paragraph 15; the ASB directed that the proposed amendment to AU-C 725, par. A17, say “the auditor is permitted to express an opinion on only those schedules” instead of “the auditor may express an opinion only on those schedules”.

An additional amendment is proposed to require, in the auditor’s report on supplementary information

- A statement that in forming the auditor's opinion, the auditor evaluated whether supplemental information, including its form and content, complies, in all material respects, with the specified regulatory requirements or other criteria, if applicable.
- A statement, if applicable, that the supplemental information is presented on a basis that differs from the financial statements and is not prescribed by regulatory requirements. When such a statement is made, the report should describe the basis for the supplemental information presentation.

The reasons for proposing this amendment are as follows:

- AU-C 725 includes procedures already for this and adding content to the report would provide more transparency into what the auditor has done relating to supplementary information.
- There is no international standard to converge with relating to this topic and therefore aligning closer to PCAOB is helpful
- The EBP exposure draft already proposes these changes and this brings consistency to all GAAS reports on supplementary information.
- The proposed changes better reflect the work performed when a regulator requires the supplementary information

**5. Does the ASB agree with the proposed amendments in agenda item 2C?**

**6. Conforming amendments resulting from AS 17 (AS 2701)**

The conforming amendments in in Release 2013-008, *AS 17 – Supplementary Information*, are amendments (shown in agenda item 2F) to conform wording and references in other PCAOB standards with the wording and title of AS 17. They do not establish any new requirements in

any other PCAOB standards and in the opinion of the ASB Convergence Task Force, do not create any unnecessary differences with GAAS.

**Question for the ASB**

6. Does the ASB agree that no amendments to GAAS are needed in response to conforming amendments to AS 17 (2701), as shown in agenda item 2F?