



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

July 23-26, 2018

Nashville, TN

### MEETING ATTENDANCE

#### ASB Members

Mike Santay, *Chair*  
Monique Booker  
Jay Brodish  
Dora Burzenski  
Joseph Cascio  
Larry Gill  
Audrey Gramling  
Gaylen Hansen  
Tracy Harding  
Jan Herringer  
Ilene Kassman  
Kristen Kociolek  
Sara Lord  
Alan Long  
Rich Miller  
Dan Montgomery  
Steven Morrison  
Marcia Marien  
Jere Shawver  
Chad Singletary

#### AICPA Staff

Mimi Blanco-Best, *BRAAS (by phone, 7/25)*  
Linda Delahanty, *Audit & Attest Standards*  
Mike Glynn, *A&A Standards*  
Ahava Goldman, *A&A Standards*  
Hiram Hasty, *A&A Standards*  
Kristy Illuzzi, *CPEA*  
Chuck Landes, *Professional Standards & Services*  
Teighlor March, *Assistant General Counsel*  
Andy Mrakovic, *A&A Standards*

#### Observers and Guests

Denny Ard, *Dixon Hughes Goodman LLP*  
Michael Auerbach, *DOL*  
Sally Ann Bailey, *Deloitte & Touche LLP*  
Bob Dohrer, *RSM International*  
Dan Dustin, *NASBA (7/25 only)*  
Emily Edwards, *Confirmation.com*  
Brian Fox, *Confirmation.com*  
Elizabeth Gantnier, *Dixon Hughes Goodman LLP*  
Josie Hammond, *RSM US LLP*  
Chris Halterman, *EY (by phone, 7/25)*  
Kathy Healy, *PwC LLP*  
Meagan Jenkins, *Confirmation.com*  
Nick Kostoff, *EY LLP*  
Jessica Luttrell, *NASBA*  
Lynne McMennamin, *DOL*  
Carole McNees, *Plante Moran*  
Jeff Rapaglia, *DHG*  
Darrel Schubert  
Laura Schuetze, *Grant Thornton*  
David Steimel, *EKS&H, LLLP*  
Curtis Taylor  
Joe Zamboni, *Thomson Reuters*

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Judith Sherinsky, A&A Standards

### Chair's Report

Mr. Santay thanked NASBA for hosting us in their lovely facility. He provided an update on the activities of the FASAC, CAG and AITF. Mr. Landes provided an update on COSO activities. Ms. Kociolek stated that a revised Yellow Book has been issued.

The highlights of the January 2018 ASB meeting were approved unanimously.

#### 1. Auditor Reporting: ERISA

Mr. Schubert led the ASB in a discussion of reporting on ERISA plan financial statements. The objective of this agenda item was to vote to ballot the proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (proposed SAS), and related amendments to other standards, for issuance as a final standard.

The ASB reviewed and revised a draft of the proposed SAS. The effective date of the proposed SAS will be aligned with the effective date of the proposed Auditor Reporting standards.

The ASB voted to ballot the proposed SAS for issuance as a final standard. Seventeen members voted for balloting, one member abstained, and one member dissented to balloting. [Subsequent to the meeting, all members submitted ballots approving issuance of the standard as final.]

The ASB recommended the following changes be made to the July 2018 draft of the proposed SAS:

- Add references to AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, and AU-C section 260, *The Auditor's Communication With Those Charged With Governance* to paragraph 4.
- Update the effective date in paragraph 9 to reflect the alignment with reporting standards and add reference to the Exhibit that provides transitional implementation reporting guidance.
- Clarify the objectives in paragraph 10 as follows:
  - Revise 10(a) to clarify that the objective of the auditor is to accept an ERISA engagement when the basis upon which it is to be performed has been agreed upon through establishing whether the preconditions for an audit exists.
  - Combine 10(b) and (c).
  - Replace “evaluate” with “perform procedures” in 10(f).

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- Revise paragraph 12 to require the auditor to inquire of management about how management determined that the entity preparing and certifying the investment institution is a qualified institution.
- Add back a requirement from paragraph 20(b) of the Exposure Draft, under the “Procedures for an ERISA Section 103(a)(3)(C) Audit” section requiring the auditor to evaluate management’s assessment of whether the entity issuing the certification is a qualified institution. Move paragraph 13 to follow this new requirement and add application material to explain what the implications to the audit may be.
- Change the requirement in paragraph 14 to require the auditor to obtain the agreement of management or those charged with governance to provide to the auditor, prior to the dating of the auditor’s report, a draft of the form 5500 that is substantially complete rather than the “final draft Form 5500.” Make this change consistently throughout the SAS, as applicable. Include application material to explain what “substantially complete” means.
- Revise paragraph 18 relating to the Plan Tax Status to better reflect that the auditor’s responsibilities are part of AU-C section 250 responsibilities and that the relevant IRC compliance tests include, but are not limited to, the discrimination testing. Move to application material that the plan’s tax status is fundamental to the plan.
- Move the first sentence of paragraph 19 to the scope section of the proposed SAS.
- Include in paragraph 20, a requirement for the auditor to discuss matters with those charged with governance before revising the auditor’s report.
- Move the last sentence of paragraph 23 to application material and remove paragraph A36.
- Move the content from paragraph 26 relating to the noncertified information to the end of the section and reorder the section. Include application material to clarify that when planning and performing the audit procedures in an ERISA section 103(a)(3)(C) audit, the materiality considerations apply to the financial statements as a whole.
- Include a new requirement under the “Procedures For an ERISA Section 103(a)(3)(C) Audit” section that requires the auditor to identify which investment information is certified.
- Replace “for consistency with” with “assess whether they are in accordance with” in paragraph 27(c).
- Include as part of the requirement in paragraph 47 for the auditor to discuss matters with those charged with governance before revising the auditor’s report.
- Revise the wording in paragraph 96(a) of the “Nature of the ERISA Section 103(a)(3)(C) Audit” section to state that “Management, having determined it is permissible in the circumstances, has elected to have the audit...”

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- Revise the wording in paragraph 104 to state that “our audits did not extend to the certified investment information, except for ...” and change “for consistency with” to “to assess whether they are in accordance with”
- Remove paragraph 106.
- Replace “information” with “amounts and disclosures” in paragraph 109(a) and remove “based on the financial statements as a whole.” Include these changes as applicable throughout the SAS.
- Remove “based on the financial statements as a whole” and “as to complete and accurate” from paragraph 109(b). Include these changes as applicable throughout the SAS.
- Include application material to paragraph 109(b) to explain the wording in the opinion may need to change when an insurance entity is involved.
- Revise the dating of the auditor’s report in paragraph 117(d) to reflect evidence that the procedures relating to the draft Form 5500 have been performed. Apply this change as appropriate throughout the SAS.
- Replace the lead-in to paragraph 123 with “When management elects...”
- Include “agreed to or derived from the certified investment information” in paragraph 123(d).
- Add as a new bullet after 123(d) “a statement that for information included in the supplemental schedules that agreed to or is derived from the certified investment information, the auditor compared such information to the related certified investment information”.
- Replace “other than that derived from” with “other than the information agreed to or derived from” in paragraph 123(e).
- Revise the opinion in paragraph 123(f) to reflect “agreed to or derived from” and “prepared and certified” consistently.
- Remove paragraph 123(h)(i)
- Add a new bullet under paragraph 123(h) that states “a statement that such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.”
- Move paragraph 126 a-b to application material.
- Make changes to Illustrations 3-6 as applicable based on the changes previously listed.
- Remove Exhibit B.
- Revise Exhibit C to reflect applicable changes as previously listed.
- Various editorial changes.

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### 2. Auditor Reporting: 700 series

The ASB discussed preliminary feedback from the comment letters received on the exposure draft *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*, and provided the Task Force with direction on how to proceed in revising the proposed SASs. Revised drafts will be brought to the ASB at its October meeting for deliberation.

Mr. Montgomery led the ASB in a discussion of preliminary feedback from the comment letters received on the exposure draft *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements* and provided the Task Force with direction on how to proceed in revising the proposed SASs.

The ASB was asked to provide specific feedback on the following two areas:

#### 1. *Timing of Communications with Those Charged with Governance*

While the ASB noted that 81% of respondents supported no change to the existing standards as it relates to the timing of communications with those charged with governance, the ASB also noted the importance of certain communications to be made prior to the release of the auditor's report. The ASB asked the task force to c at paragraphs 12-13 of AU-C section 260, *The Auditor's Communication with Those Charged with Governance*, to determine whether any of those required communications should be made prior to the issuance of the auditor's report. The ASB also asked the task force to obtain feedback from TIC so that the task force is taking into consideration the concerns of different size firms.

The ASB asked the task force to consider the communications required by paragraphs 12-13 of AU-C section 260, *The Auditor's Communication with Those Charged with Governance*, to determine whether any of those should be made prior to the issuance of the auditor's report. The ASB also asked the task force to obtain feedback from TIC regarding the concerns of firms of varying sizes.

#### 2. *Including the City and State of the Addressee in the Auditor's Report*

The ASB asked the task force to propose a requirement, along with related application material, for the state and city of the addressee to be included in the auditor's report that the ASB will consider at its October 2018 meeting. Including this requirement in GAAS would have implications for the SSAEs and SSARSs.

Revised drafts of certain of the proposed SASs in the exposure draft *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statement* will be brought to the ASB at its October meeting for deliberation.

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### 3. Vendor Supply Chain Update

Chris Halterman gave the ASB an update on ASEC's project, in collaboration with the ASB, to develop a consistent, profession-wide approach to a new examination service, *SOC for Vendor Supply Chains (VSC)*. The practitioner would perform the proposed VSC examination in accordance with AT-C section 105, *Concepts Common to All Attestation Engagements*, and AT-C section 205, *Examination Engagements*. The proposed examination is being designed to provide useful information to enable users of products produced, manufactured, and distributed by an entity to better understand and manage the risks, including cybersecurity risks, arising from their business relationships with the entity. A practitioner's opinion on that information enhances the credibility that business customers and business partners can place on it.

### 4. Other Information

The ASB discussed the comments received on the public exposure of the proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* and provided feedback and direction to the Task Force developing the proposed standard.

The ASB focused its considerations on significant concerns that were raised with respect to both the proposed requirement for the auditor to include a separate section in the auditor's report addressing other information as well as the proposed performance requirements with respect to other information. Ms. Gantnier stated that the Task Force sees three possible paths forward with respect to the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*:

- 1) Continue moving forward with the project to issue a revised AU-C section 720 that is in substantial convergence with ISA 720 (Revised) *The Auditor's Responsibilities Related to Other Information*;
- 2) Re-deliberate the fundamental issues with respect to performance and reporting on other information and develop a revised standard; or
- 3) Place the project on hold and wait to see if the PCAOB re-starts its project to develop a revised standard on other information and whether the IAASB has any findings with respect to its post-implementation review of ISA 720 (Revised).

As the project was debated, several arguments in support of moving forward with a standard that is in substantial convergence with ISA 720 (Revised) were made, including the following:

- The IAASB undertook its project after meeting with investor groups and was advised that users want to know what, if any work, the auditor performed with respect to other information.
- Reporting on other information is consistent with the ASB's stated goal of being transparent in reporting.

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- The proposed reporting requirement would be similar to the reporting requirements with respect to required supplementary information, which were adopted in order to be transparent and increase the usefulness of the auditor's report.
- The proposed reporting requirement clearly states that no assurance is provided on the other information, although the statement that the auditor has "nothing to report" could be improved.

Other ASB members, however, stated that the issue of reporting when only some information is received is concerning. Additionally, in response to having a reporting requirement for other information that is consistent with required supplementary information, a counterpoint was made that whereas there is a framework for determining what required supplementary information should be presented, no such framework exists for other information.

While a minority of ASB members preferred that reporting on other information be optional, after discussion the ASB directed that the proposed standard should require that the auditor report on other information.

The ASB also discussed the performance requirements included in the proposed SAS. Concerns expressed included the following:

- Concern with the proposed requirements, with preference expressed for the performance requirements and terms used in extant AU-C section 720.
- That the terms and requirements used in the proposed SAS include the concept of an "intelligent read" of the other information and practice issues will arise if terms are used in the SAS that are inconsistent with the ISA terminology.
- That considering other information against "the auditor's knowledge" will widen the expectation gap.
- That the requirement to consider whether information is omitted would be hard to operationalize without a framework against which to consider omissions.

The ASB directed the Task Force to present a high-level document that proposes a way forward on the project at the ASB's meeting in October 2018. The proposed revised standard should keep extant AU-C section 720 performance requirements but utilize the ISA 720 (Revised) model, including considering "misstatement" of other information. The document should illustrate how the reporting models compare under various scenarios: an engagement performed in accordance with ISA 720 (Revised); extant AU-C section 720; and the proposed revised AU-C section 720.

### 5. Omnibus SAS

Jan Herringer led the ASB in a discussion of proposed SAS, *Omnibus SAS—2018*, the objective of which was to review revisions to the proposed SAS based on comments received.

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

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- Page 2, AU-C 260, par. 12: Make addition to bullet “f” its own bullet
- Page 5, AU-C 550, par. 15c; page 12, par. A22: Retain “outside the normal course of business” to modify “arrangements”
- Page 6, AU-C 550, par. 17; page 12, par. A23: Change heading from “Maintaining Alertness” to “Remaining Alert”
- Page 6, AU-C 550, par. 17 and par. 22: Reject move of requirement to “evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties” to par. 17 and retain in par. 22
- Page 7, AU-C 550, par. 26: Revise wording to indicate that significant unusual related party transactions include related party transactions that are required to be disclosed or determined to be a significant risk
- Page 12, AU-C 550, par. A22A: Move to par. A35, consistent with move of related requirement from par. 17 to par. 22
- Page 14, AU-C 240: Consider adding the sentence “*Nonroutine transactions* are transactions that are unusual, either due to size or nature, and that, therefore, occur infrequently”, which was deleted from paragraph A139 of AU-C 315, as application material to the definition of “significant unusual transactions”.
- Page 29, AU-C 580, par. 17; page 32, AU-C 930, par. 21: Delete “adequately”
- Page 30, AU-C 580, par. A18, last bullet; page 32, AU-C 930, par. A30: Revert to previous wording

The revised draft will be brought back to the ASB at its October meeting, at which the ASB will be asked to determine the effective date of the proposed SAS and to vote to ballot the proposed SAS for issuance as a final standard.

### 6. Auditor Reporting – 800 series

The Auditor Reporting Task Force (task force) is revising the AU-C 800 series of standards, which consists of AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, AU-C 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and AU-C 810, *Engagements to Report on Summary Financial Information*.

The revisions to the AU-C 800 series are being made to reflect changes to the auditor’s report included in the November 2017 ASB exposure draft (ED) *Auditor Reporting*. Revisions to AU-C 800 also include the introduction of the concept of a compliance framework.

Dan Montgomery presented a draft of AU-C 800 and issues related to the applicability of AU-C 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, to audits of financial statements prepared in accordance with a special purpose framework and to audits of single financial statements, specific elements, accounts, and items of a financial statement. The ASB requested that the task force make the following changes to the draft of AU-C 800:

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- Simplify paragraph .03 by deleting the explanation of what is addressed in each of the identified paragraphs.
- Add an application paragraph linked to paragraph .19 that clarifies the meaning of the word “relevant” in the phrase “special purpose framework for which the going concern basis of accounting is relevant” by indicating that the going concern basis of accounting is
  - relevant to a special purpose framework if the special purpose framework requires management to assess whether the going concern basis of accounting is appropriate, and if it is not, to use a basis of accounting other than the going concern basis of accounting, such as the liquidation basis of accounting. An example of such a special purpose framework is the AICPA Financial Reporting Framework for Small and Medium-Sized Entities
  - not relevant to a special purpose framework if the special purpose framework does not require management to assess whether the going concern basis of accounting is appropriate and to use a different basis of accounting if it is not. Examples of such special purpose frameworks are the cash and tax bases of accounting.
- Retain paragraphs .03 and .04 of extant AU-C 800 in the revised draft.
- Simplify paragraph .18 by stating that in all audits of special purpose financial statements, the auditor is required by AU-C 570 to conclude whether substantial doubt exists about the entity’s ability to continue as a going concern for a reasonable period of time, and to evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity’s ability to continue as a going concern for a reasonable period of time.
- Revise paragraph .19 to state what the auditor’s responsibilities are, rather than what they are not, when the going concern basis of accounting is relevant to the preparation of the special purpose financial statements
- In paragraph .20, delete item “b” which requires the auditor’s report to identify the purpose for which the financial statements are prepared when the financial statements are prepared on a regulatory or contractual basis of accounting or the auditor is required to restrict the use of the report pursuant to paragraph .06a-b of AU-C section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*.
- Revise the first sentence of paragraph A26 to indicate that paragraph .23 requires the auditor to include an *other-matter* paragraph in the auditor’s report that restricts the use of the report when the special purpose financial statements are prepared in accordance with the contractual basis of accounting
- Consider reverting to the extant versions of paragraphs A2 and A3 of AU-C 800
- Before exposure, consider alignment with PCAOB audit standards

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- Consider whether guidance is needed to explain why a particular framework would be categorized as a compliance or fair presentation framework and whether such a categorization would always be the case.

The ASB also discussed the applicability of AU-C 570 to AU-C 805. AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*, requires the auditor to comply with all AU-C sections relevant to the audit. This requirement also applies to an audit of a single financial statement, element, account or item of a financial statement, irrespective of whether the auditor has audited the complete set of financial statements. However, paragraph .09 of AU-C 805 indicates that when the auditor has not audited the complete set of financial statements, the auditor should determine whether an audit of a single financial statement, element, account or item of a financial statement is practicable because the audit effort required may be disproportionate to the element, account, or item being audited.

In discussing these requirements, ASB members

- noted that the auditing literature is comprehensive and requires the auditor to perform risk assessment at the entity level in an audit of a single financial statement, element, account, or item of a financial statement, which may not be possible in such audits. For that reason, consider moving AU-C 805 from the auditing standards to the attestation standards
- concluded that when the auditor has not audited the complete set of financial statements, AU-C 805 should continue to provide the auditor with the ability to determine whether it is practicable to adapt and apply a particular AU-C section to an audit of a single financial statement, element, account, or item of a financial statement, and if it is not practicable, to discuss with management another type of engagement that might be more practicable, such as an agreed-upon procedures engagement performed under AT-C section 215, *Agreed Upon Procedures Engagements*.

### NASBA Liaison

Mr. Dustin and Mr. Landes discussed NASBA and the ASB's respective efforts regarding the Professional Ethics Executive Committee (PEEC) NOCLAR (non-compliance with laws and regulations) project. Mr. Santay provided an update on the ASB's current projects. Mr. Dustin expressed NASBA's support for requiring the inclusion of the client's address – city and state – in the auditor's report.

### IAASB Update

Ms. Goldman and Mr. Landes provided an update on recent activities of the IAASB.