



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

January 14-17, 2019

La Jolla, CA

### MEETING ATTENDANCE

#### ASB Members

Mike Santay, *Chair*  
Monique Booker  
Jay Brodish  
Dora Burzenski  
Joseph Cascio  
Larry Gill  
Audrey Gramling  
Gaylen Hansen  
Tracy Harding  
Jan Herring (by phone on 1/17)  
Kristen Kociolek  
Ilene Kassman  
Sara Lord  
Alan Long  
Rich Miller  
Dan Montgomery  
Marcia Marien  
Jere Shawver (1/14-1/16 only)  
Chad Singletary

#### Guests

Denny Ard, *Dixon Hughes Goodman LLP* (1/15-1/16)  
Elizabeth Gantnier, *Dixon Hughes Goodman LLP* (1/16)  
Cathy Schweigel, *Larson Allen*

#### AICPA Staff

Sue Coffey, Executive VP, *Professional Standards & Services*  
Bob Dohrer, Chief Auditor, *Professional Standards & Services*  
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*  
Andy Mrakovcic, Technical Manager, *A&A Standards* (by phone)  
Teighlor March, *Assistant General Counsel*  
Tammy Mooney, Associate Director, *Assurance Advisory Innovation*  
Kristy Illuzzi, *CPEA* (1/14 only)  
Chuck Landes, *CPEA*

#### Observers

Sally Ann Bailey, *Deloitte & Touche LLP*  
Mona Dickerson, *CohnReznick*  
Kathy Healy, *PwC LLP*  
April King, *RSM* (1/15-1/17)  
Nick Kostoff, *EY LLP*  
Jessica Luttrell, *NASBA*  
Carol McNees, *Plante Moran PLLC*  
Jeff Rapaglia, *DHG*  
Cathy Rowe, *Wolters Kluwer*  
Tania Sergott, *Deloitte & Touche LLP*  
Laura Schuetze, *Grant Thornton*  
Dan Vooght, *Grant Thornton*

## **Chair and Chief Auditor Report**

Mr. Santay provided an update on recent speeches he presented on behalf of the ASB., Mr. Santay also specifically mentioned a panel presentation in which he and Mr. Dohrer participated at the NASBA National Meeting where ASB member Gaylen Hansen was honored with the William H. Van Rensselaer Public Service Award. He also provided an update on PCAOB activities, including the appointment of former ASB member Megan Zietsman as Chief Auditor.

Mr. Dohrer gave an update on his first 100 days as AICPA Chief Auditor, and on IAASB activities.

### **1. Auditor Reporting: 700 series**

Mr. Montgomery led the ASB in a discussion of the Statement on Auditing Standards (SAS) relating to auditor reporting and related amendments that contains the following sections:

- *Forming an Opinion and Reporting on Financial Statements*
- *Communicating Key Audit Matters in the Independent Auditor's Report*
- *Modifications to the Opinion in the Independent Auditor's Report*
- *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- *Proposed amendments to various AU-C sections*

The objective of this agenda item was to vote to ballot the proposed SAS, *Auditor Reporting and Related Amendments* for issuance as a final standard.

The ASB voted to ballot the proposed SAS for issuance as a final standard. Seventeen members voted for balloting, one member was absent, and one member dissented to balloting. (The reasons for dissenting are included in the Appendix to these highlights).

The ASB recommended the following changes be made to the January 2019 draft of the proposed SAS before finalization:

#### ***Forming an Opinion and Reporting on Financial Statements (AU-C Section 700)***

- Remove the word “potential” in paragraph A12
- Move the last two sentences in application material from paragraph A5 to new paragraph A16 (relating to the requirement in paragraph 16b)
- Remove the requirement and related application material in paragraph 23 (and A26) relating to requiring that the city and state of the addressee be included in the auditor's report
- Add wording regarding the time frame as set by the applicable financial reporting framework to the requirement in paragraph 32b relating to management's evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern

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- Change wording in paragraph 36a to align with AU-C section 200 relating to the auditor exercising professional judgment and maintaining professional skepticism
- Change the wording in paragraphs A76 and A77 to align with SSARs
- Reflect changes in the report illustrations, as appropriate.
- Change the circumstances in illustrations 2 and 4 to not include consolidated financial statements because firm styles differ

***Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report (AU-C section 706)***

- Clarify, in the application material, that the placement of emphasis-of-matter paragraphs and other-matter paragraphs is not specified by the standard and therefore is left to auditor judgment. Add a reference in the illustrative reporting to this clarification.

***Amendments to AU-C sections***

- Clarify the amendment to paragraph .09 of the amendments to AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- Add a new bullet to paragraph .A50 of the amendments to AU-C 260, *The Auditor's Communication With Those Charged With Governance* to consider a communication prior to the issuance of the auditor's report when the auditor expects to modify the opinion in the auditor's report
- Remove illustration 2 from the amendments to AU-C section 570 because it is not believed to be a common example

***City and State of the Addressee***

Mr. Hansen provided rationale in support of a requirement for the city and state of the addressee to be included in the auditor's report. He noted that transparency about the location of the audited entity is important to users of audited financial statements, and therefore disclosure would be in the public interest. He also noted that the city and state of the addressee would help regulators determine the jurisdiction of the auditor.

The ASB raised concerns with the requirement. Revisions to the requirement and application material proposed during the meeting did not resolve ASB concerns and it was determined that further efforts to come to a resolution would only delay issuance of the proposed standards. The ASB questioned whether the addressee of the report was an appropriate indicator of jurisdiction.

The ASB, by majority vote, decided not to require that the city and state of the addressee be included in the auditor's report for the following reasons:

- A majority of respondents to the exposure draft stated that the complexity introduced by the requirement outweighed the benefits.
- The requirement would be difficult to operationalize and to apply consistently because the city and state of the addressee may not be the city and state of the business entity's principal operations and thus might lead to confusion for users of the report.

- The requirement is not forward-looking because as business structures evolve, the physical location of the addressee becomes less certain and a fixed physical location may not exist or be relevant.

The ASB also noted that GAAS does not prohibit this information from being included voluntarily by auditors in the auditor's report. The ASB will continue to explore opportunities to enhance audit quality and transparency, including with respect to licensure issues, in its upcoming quality control project.

### ***Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

The ASB also discussed proposed conforming amendments to the final balloted [SAS Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA](#), (ERISA SAS), to conform to the new auditor reporting standards. The ASB directed the task force to fully conform both the standard ERISA auditor's report and the ERISA section 103(a)(3)(C) report with the new auditor reporting standards. The ASB recommended the following changes be made to the illustrative ERISA section 103(a)(3)(C) report in agenda item 1G:

- Conform the report to the new AU-C 700 reporting model
- Rename the first section of the auditor's report to "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit" and include the heading "Opinion" before the opinion paragraph
- Move the statement about management obtaining a certification to "Responsibilities of Management for the Financial Statements" section of the report.
- Retain the placement of the other-matter paragraph relating to the supplemental schedules at the end of the report

## **2. Management Specialists**

The ASB decided to obtain feedback about where to locate content related to management's specialists currently in AU-C section 500 by including a question in the exposure draft of proposed SAS *Audit Evidence* (see agenda item 3).

## **3. Audit Evidence**

Mr. Dohrer led a discussion of a draft of the proposed SAS *Audit Evidence*, which would supersede AU-C section 500, *Audit Evidence*.

Major issues discussed, and significant conclusions reached, were as follows:

- The ASB was supportive of the direction of the project while expressing the need for further editing and refinement of the draft standard.

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- The proposed effective date of audits of financial statements for years ending December 15, 2020, may be challenging given the timeline of the project.
- The ASB was supportive of the graphic illustration of the proposed attributes and factors that affect audit evidence (the “Cube”) but suggested that the Cube should be more prominently featured elsewhere in the proposed standard so that it can better illustrate the proposed attributes and factors of audit evidence. The ASB found the term “relationship to management assertions” to describe the notion of corroborative or contradictory information confusing.
- The ASB directed the Task Force to:
  - in the scope section, better articulate the interrelationship of the proposed SAS to other standards such as AU-C section 315 and 330 in the scope section, and clarify that information obtained by the auditor only becomes audit evidence after audit procedures are applied to the information.
  - make it explicit that the requirements in the proposed SAS do not establish incremental audit documentation requirements beyond those already required in other standards.
  - revise the objective to be more explicit that the auditor evaluates information as a basis to conclude whether sufficient appropriate audit evidence has been obtained.
  - add guidance to better explain the concept of “sufficient appropriate audit evidence” by explaining separately the concepts of “sufficiency” and “appropriateness” and how “sufficiency” is assessed based on the persuasiveness of audit evidence.
  - clarify the intended work effort of the requirements dealing with the factors and attributes to be used for evaluating whether sufficient appropriate audit evidence has been obtained. Some ASB members expressed the view that the requirement “should consider” might be too weak, particularly as it relates to relevance and reliability of the information.
  - relocate significant portions of the application material about external information sources to an appendix and reconsider the application material dealing with the accuracy and completeness of external information sources.

A revised draft be brought to the ASB at a subsequent meeting with the intent of asking the ASB to vote the proposed standard for exposure at its May meeting.

#### **4. Attestation Standards**

Mr. Ard and Ms. Schweigel led a discussion of

- comments received on the public exposure of the proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification (ED).

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- the preliminary thoughts of the Attestation Standards Task Force (Task Force) on potential revisions to the ED.

The significant feedback and conclusions reached were as follows:

- The Task Force was asked to address comments from respondents about matters that affect operationalizing the proposed attestation standards
- With respect to issues relevant to all attestation engagements, the proposed standard should:
  - Identifying as either the engaging party or the responsible party the party with whom the practitioner is interacting (for example, the party from whom the practitioner is requesting representations), rather than using the generic term *appropriate party*.
  - Use the terms *underlying subject matter* and *subject matter information*, instead of the single term *subject matter* as appears in the extant standards, to differentiate the phenomenon that is measured or evaluated by applying criteria (i.e., *underlying subject matter*) from the outcome of the measurement or evaluation of the underlying subject matter against the criteria (i.e., *subject matter information*). The responsible party is solely responsible for the underlying subject matter. The consensus of the ASB is that having two terms for these concepts helps in understanding that the practitioner is independent of the underlying subject matter and remains independent even when the practitioner performs the measurement or evaluation of the underlying subject matter that results in the subject matter information. The ASB noted that education may be necessary to assist practitioners in understanding the distinctions between these terms and directed the task force to develop illustrations of how these terms are used.
  - Not preclude a practitioner from requesting a written assertion in an attestation engagement, although in general the ASB supports eliminating the requirement for the practitioner to request such an assertion. [Note: the comments received from public exposure supported the proposal to retain the requirement to request an assertion in extant AT-C section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*.] In addition, the ASB directed the Task Force to develop application guidance that presents situations in which it may be preferable for the practitioner to request an assertion and provide rationale for why that would be so.
- With respect to the issues relevant to agreed-upon procedures engagements, the proposed standard should:
  - Continue to require that the engaging party (and other parties, as appropriate) agree that the procedures performed are *appropriate* for their intended purpose. That construct is consistent with the exposure draft of proposed revised ISRS 4400.

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- Neither explicitly state that the practitioner is permitted to take responsibility for the appropriateness of the procedures nor prohibit the practitioner from taking such responsibility.
- Not prohibit the engaging party (or other parties, as appropriate), in addition to agreeing that the procedures are *appropriate* for their intended purpose, to agree that the procedures are *sufficient, suitable*, or any other qualifier.
- If parties in addition the engaging party take responsibility that the procedures are *appropriate* for their intended purpose, allow either the practitioner or the engaging party to obtain agreement with such parties. If the agreement with such parties is obtained by the engaging party, the engaging party should be required to provide a written representation to that effect and the practitioner's report should include a statement that the engaging party has represented that such parties have agreed to the appropriateness of the procedures.
- Clarify that transparency relating to matters for which flexibility beyond that provided by extant AT-C section 215 has been exercised (that is, regarding who designed the procedures, who takes responsibility for the procedures, and who the intended users of the report are) can be accomplished through addressing these matters in the engagement letter and in the auditor's report.
- Not include the concept of *criteria*, as it is not necessary. AT-C section 105 can be revised to state that this concept applies only to examination and review engagements.
- Retain from extant AT-C section 215 the requirements to request written representations from the engaging party. When the engaging party is not the responsible party, the standard should require the practitioner to *consider* also requesting written representations from the responsible party. The ASB did not support the Task Force proposal that, if requested written representations are not obtained from the responsible party, the practitioner be required to include a statement to that effect in the agreed-upon procedures report.
- With respect to the issues relevant to review engagements only:
  - As the ARSC is considering permitting an adverse review conclusion for reviews of historical financial information, the proposed revision to AT-C section 210 regarding adverse review conclusions should be considered in conjunction with changes proposed in the SSARSs ED, which will include a specific request for comment on this issue.
  - The ASB continues to support the inclusion of a description of the procedures performed in the practitioner's report.
  - Because of potential conflict with terminology used in the Uniform Accountancy Act and other regulations, the engagement should retain the title of *review*.
- Certain ASB members stated that some concerns raised in the dissents to the ED have not sufficiently been addressed and that in particular issues related to performing engagements in accordance with extant AUP need to be revisited. The task force chairs acknowledged those points and will be looking to obtain more specific feedback (including a deeper analysis of the comments received) as part of future deliberations.

A revised draft will be brought to the ASB at its May 2019 meeting.

## 5. Other Information

The ASB discussed a draft of the proposed SAS *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, which would supersede AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*. A revised draft will be brought to the ASB at its May 2019 meeting with the intent of asking the ASB to vote to issue the proposed SAS as a final standard.

Revisions directed by the ASB include

- clarification of the term *misstatement of the other information*,
- a requirement for the auditor to obtain management's acknowledgment that the auditor's report and the audited financial statements will be included only in the annual report identified.
- requiring that the section about other information be placed at the end of the auditor's report, and clarification that that the auditor may issue a report on stand-alone financial statements that does not include the separate section on other information.

## 6. Auditor Reporting: 800 series

Mr. Montgomery led a discussion of proposed revisions to the AU-C 800 series, which consists of AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, AU-C section 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and AU-C section 810, *Engagements to Report on Summary Financial Information*. The revisions to the AU-C 800 series are being made in light of the revisions to the AU- C 700 series (see item 1 above). The ASB is considering whether to introduce into this series the concept of a compliance framework, which is included in the definition of *applicable financial reporting framework* in ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*. The ASB's intention is to issue an exposure draft in 2019 and to align the effective dates of the revised AU-C 800 series of standards with those of the final auditor reporting standards.

### AU-C 800

The major issue discussed was whether criteria or attributes could be developed to help determine whether a special purpose framework is a fair presentation framework or a compliance framework, recognizing that the Auditor Reporting task force (task force) believes that the factors in paragraph .A4 of AU-C 210 are an appropriate starting point. In a discussion by the



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ASB members, not intended to arrive at a consensus or any decisions, the following topics were discussed

The ASB discussed, without coming to a consensus or making any decisions, the following topics:

- The extent of the changes to be made to AU-C section 800
- Whether to introduce the concept of a compliance framework into GAAS, and if so, where
- The definition of a fair presentation framework and continuing to designate the cash and tax bases as fair presentation frameworks
- Whether every regulatory framework is a compliance framework and the attributes of a compliance framework
- The requirement for a dual opinion, the process used by insurance regulators for developing a framework for statutory reporting purposes, and how the report might alert users of the financial statements with regard to the special purpose framework
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#### AU-C 805

The ASB requested that the task force make the following changes to the draft of AU-C 805:

- Conform the last sentence in paragraph A2 regarding disclosures incorporated by reference with the related sentence in AU-C section 700
  - Consider deleting the last sentence in paragraph 6b regarding disclosures because it is repetitive with paragraph A2
- In order to clarify that AU-C section 570 may or may not be relevant to an audit of a single financial statement or an element of a financial statements, add to the list of circumstances preceding the illustrative reports on elements and on single financial statements, as applicable, that the going concern basis of accounting is relevant
- Consider adding an application material paragraph to AU-C section 805 indicating that the auditor's report on an element of or single financial statement may include a statement that management is responsible for evaluating whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern
- Make any additional changes needed to conform with the final auditor reporting standards

The Task Force will consider the points raised during the discussion, and bring revised drafts of AU-C sections 800, 805, and 810 to the ASB at its May 2019 meeting.

#### **Other Item**

The ASB agreed to propose amendments to eliminate inconsistencies between AICPA *Professional Standards* and the definition of materiality used in the United States by regulators, other standard setters, and other participants in the US financial reporting system. These proposed amendments are intended to align the materiality concepts discussed in *Professional Standards* consistent with the definition of materiality used by the United States judicial system,

the auditing standards of the Public Company Accounting Oversight Board (PCAOB), the Financial Accounting Standards Board, the Government Accounting Standards Board, and the U.S. Securities and Exchange Commission (SEC). A proposed SAS will be brought to the ASB at subsequent meetings with the intent of voting to ballot for exposure at the May 2019 ASB meeting.

### **Liaison meetings**

The ASB met with the AICPA Technical Issues Committee and with the AICPA Assurance Services Executive Committee, to discuss projects of mutual interest and obtain feedback on those projects.

## **Appendix - Reasons for Dissent**

Mr. Hanson dissented to the balloting for the issuance of this standard as a final standard for the following reasons:

Overall, I have been very supportive of the Auditing Standards Board's project to update standards governing auditor reporting. I believe the revised standard provides much new and useful information to users of financial statements about many significant aspects of an audit.

During the course of our deliberations, we debated requiring that the addressee in audit reports identify not only the name of the entity audited, but also its city and state. I believe transparency about the location of the audited entity is important to users of audited financial statements, and that disclosure is therefore in the public interest. However, ultimately the Board chose to pass on this particular issue.

The Board's mission includes an overriding goal of setting standards that are in the public interest. The objections to requiring disclosure of an audited entity's location came primarily from some auditors, taking the position that operationally it is too difficult to identify a client's location. On the other hand, NASBA and state boards of accountancy, regulators and users of private entity financial audits, vigorously supported inclusion as being in the public interest.

Indeed, one aspect of the new audit opinion is a statement by auditors confirming independence and compliance with other ethical responsibilities (see paragraph 28 c.). How can auditors make those assertions without knowing the location of their client? In that respect, state boards of accountancy ultimately are charged with determining acceptable standards for their states, which can vary, especially as it relates to independence and ethical matters. Therefore, without jurisdictional knowledge, familiarity, and appropriate licensure, it is hard to see how an auditor can affirmatively opine as to compliance with independence and ethical matters in an audit report. The

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auditor simply must know where the client is located in order to comply with the applicable requirements. Otherwise, the affirmative statement in audit reports about compliance with independence and ethical matters has no substantive meaning.

One of the most frequent violations encountered by state boards of accountancy and other regulators such as the U.S. Department of Labor, is the unlicensed practice of public accountancy. I believe disclosing the location of the client in the addressee section of the audit report would help remind auditors, clients, and users of audited financial statements, that the applicable laws and regulations require compliance. By passing up this aspect of the audit-reporting project, I believe the Board has missed a tremendous opportunity to assist practitioners and at the same time serve the public interest by conveying important information. It has also passed on supporting a legitimate request of NASBA and state regulators that oversee private entity audits. For this reason alone I must register my dissent.