

AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

July 22-25, 2019

Dallas, TX

MEETING ATTENDANCE

ASB Members

Mike Santay, *Chair*
Brad Ames
Monique Booker
Jay Brodish
Dora Burzenski
Joseph Cascio
Harry Cohen
Jeanne Dee
Larry Gill
Audrey Gramling
Gaylen Hansen
Tracy Harding
Jon Heath
Jan Herringer
Kristen Kociolek
Sara Lord
Alan Long
Marcia Marien
Aaron Saito

Guests

Denny Ard, *DHG LLP (7/23)*
Dan Montgomery *(7/23-24)*

AICPA Staff

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*
Judith Sherinsky, *Senior Technical Manager—A&A Standards (by phone)*
Teighlor March, *Asst. General Counsel—General Counsel & Trial Board*
Andy Mrakovic, *Technical Manager— A&A Standards (by phone)*

Observers

Peter Alfele, *CliftonLarsonAllenLLP*
Sally Ann Bailey, *Deloitte & Touche LLP*
Mimi Blanco-Best, *AICPA, Assurance & Advisory Innovation (7/23)*
Patricia Bottomly, *BDO*
Kimberly Fransen, *Thomson Reuters*
Harrison Greene, *FDIC*
Cheryl Hartfield, *Thomson Reuters*
Kathleen Healy, *PwC*
Kristy Illuzzi, *AICPA, CPEA*
Ilene Kassman, *KPMG LLP*
April King, *RSM US LLP*
John Klinge, *KPMG LLP*
Carrie Kostelec, *Wolters Kluwer*
Nick Kostoff, *Ernst & Young*
Jessica Luttrull, *NASBA*
Tammy Mooney, *AICPA, Assurance & Advisory Innovation (7/22)*
Alison Parker, *Thomson Reuters*
Cathy Rowe, *Wolters Kluwer*
Laura Schuetze, *Grant Thornton LLP*
Danita Thompson, *FDIC*
Mark Wells, *Thomson Reuters/PPC*
Nathan Ybarra, *FDIC*

Chair's Report

Mr. Santay welcomed new ASB members Brad Ames, Harry Cohen, Jeanne Dee, Jon Heath and Aaron Saito. Mr. Santay report that he attended a Center for Audit Quality Global Public Policy Committee meeting to develop a comment letter on the Brydon Review calls for views on the quality and effectiveness of audit. He also reported on the International Auditing Standards Task Force meeting held on June 6th to discuss the June 17-21, 2019, International Audit and Assurance Standards Board (IAASB) meeting. Comment letters on the IAASB's Quality Management Exposure Drafts, Emerging External Reporting Consultation Paper, and IAASB Strategy and Work Plan will be submitted.

Mr. Santay reviewed the ASB's upcoming agenda and projects.

Mr. Dohrer reported that the AICPA is continuing its focus on risk assessment as part of its Enhancing Audit Quality Initiative and the ASB's current project on risk assessment (AU-C 315) and the IAASB's expected approval of ISA 315 will impact EAQ messaging. Mr. Dohrer noted that when the ASB votes to ballot a proposed standard for exposure or final issuance, the standard is subject to editorial changes at the discretion of the ASB Chair and Chief Auditor.

1. Estimates

Ms. Burzenski led the ASB in a discussion of proposed SAS *Auditing Accounting Estimates and Related Disclosures* (proposed estimates SAS). The ASB voted unanimously to ballot the proposed SAS for issuance as an exposure draft with a 90-day comment period. The proposed SAS would supersede AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

Regarding the issues brought to the ASB:

- *Issue 1- AU-C section 501*. The ASB supported the task force's proposal to remove paragraphs .06-.10 from AU-C 501 because they are generally duplicative of the requirements in the proposed SAS and directed the task force regarding what material from paragraphs .A11-.A19 of AU-C section 501 to include as application material in the proposed SAS.
- *Issue 2 – Specific paragraphs in the Proposed SAS*
 - Paragraph 4¹ –the first sentence of paragraph .04 was revised as follows: “For purposes of assessing the risk of material misstatement at the assertion level of accounting estimates, this proposed SAS requires inherent risk and control risk to be assessed separately” to clarify that the assessment of inherent and control risk are separate from each other and not separate from the AU-C section 315 assessment.

¹ Paragraph references relate to paragraphs in Agenda Item 1B from the July 2019 ASB meeting materials.

- The placement of the last sentence in paragraph 4 relating to tests of controls was questioned but not changed because the ASB agreed it completes the discussion about control risk assessment.
- Paragraph 17 – the ASB requested that the Task Force consider whether to include content from paragraph 30 of AU-C 315 in paragraph 17 to better align paragraph 17 with AU-C section 315.
 - Paragraph 20 – the ASB questioned whether this paragraph should refer to the test of operating effectiveness of controls and not just tests of controls but made no change, because paragraph .08 of AU-C section 330 uses “tests of controls” throughout.
 - Paragraph 23e – the ASB discussed whether the phrasing of this bullet should be revised as it is not a commonly used phrase and concluded that the application material provides sufficient guidance about the intent of this bullet.
 - Paragraph 37 - the ASB considered whether to add mention of management bias here and concluded that management bias is sufficiently addressed in Appendix B to the proposed SAS.
 - Paragraph A14 – the ASB questioned whether the proposed SAS should address the disaggregation of classes of transactions and how that ties into the separate assessment of inherent and control risk. The ASB suggested that this topic be considered as part of the AU-C section 315 project.
 - The ASB directed that paragraph A21A be moved to new paragraph A20 to follow paragraph A19.
 - Paragraph A20 – the ASB questioned whether the use of “observation” in the last sentence is appropriate and concluded it was because AU-C section 940.A56 includes discussion about walk-through procedures including inquiry, observation, and inspection.
 - The ASB requested that the application material from paragraph A17 of AU-C section 501 be included in the proposed SAS. Accordingly, the guidance in paragraph A17 of AU-C section 501 was included as a new paragraph following paragraph A25. Further, the ASB recommended that the bullet relating to equity securities be removed.
 - Paragraph A63 – the ASB directed that the words “not only” be moved to precede “accounting estimates that are recognized in the financial statements” to capture situations in which the accounting estimate relates to disclosure only.
 - Paragraph A85 - the ASB noted that AU-C section 940 has a similar list of factors relating to the extent of testing of the operating effectiveness of controls and directed that a reference to paragraph .A66 of AU-C section 940 be added to the proposed SAS.
 - Paragraph A93 – the ASB questioned whether the list in paragraph A93 implies that this may be the only appropriate way to test how management made an estimate and

- whether it should be revised. Because the structure of this paragraph is consistent throughout the proposed SAS, no changes were proposed.
- Paragraph A96 – the ASB directed that the example included in paragraph A96 (that was taken from paragraph A19 of AU-C 501) be deleted because it is outdated.
 - Paragraph A115 – the ASB questioned why the proposed SAS specifically calls out independence and whether the proposed SAS should further explain why auditor independence could be compromised. The ASB directed that the term “compromising” be changed to “impairing” and a footnote added to reference to management’s responsibilities under the nonattest services subtopic in ET section 1.295 under the independence rule of the Code of Professional Conduct.
 - The ASB also proposed various editorial changes.

Other Matters

- The ASB recommended that the wrap document discuss the new concept of “scalability” included in the proposed SAS and point out that the proposed SAS has two appendixes.
- *Issue 3 – External Information Sources and proposed Evidence SAS.* The ASB discussed the interaction between this proposed SAS and the Audit Evidence exposure draft. The ASB supported highlighting that the content relating to external information sources contained in the Audit Evidence ED is integral to the accompanying proposed SAS.
- *Issue 4 – Effective Date.* The ASB supported the proposed effective for audits of financial statements for periods ending on or after December 15, 2022.

2. Conforming Amendments – AU-C sections 930, 935, 940

The ASB discussed proposed amendments to various AU-C sections that are being made to reflect changes to the auditor’s report included in SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Statements*, issued in May 2019.

The proposed amendments, revised as directed by the ASB during its discussion, will be brought to the ASB in October to be voted for issuance as an exposure draft.

AU-C section 930

Mr. Glynn led the discussion. He stated that while the ASB’s directive was to propose amendments to AU-C section 930 for conformity with SAS No. 134, the draft amendments also propose certain revisions for conformity with AR-C section 90, *Review of Financial Statements*. AR-C section 90 is converged with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*.

After discussion, the ASB concluded the revisions to AU-C section 930 for consistency with AR-C section 90 (and accordingly, ISRE 2400) should not be made and suggested considering whether the reporting requirements in AU-C section 930 should be in harmony with the requirements in

the Public Company Oversight Board's AS 4105, *Reviews of Interim Financial Information*. This would include the placement of the auditor's review conclusion at the beginning of the review report on interim financial information.

Because the proposed revisions to AU-C section 930 have expanded beyond the original charge, the ASB suggested that a Task Force be formed to consider the proposed amendments before such amendments are presented to the ASB at its October 2019 meeting.

Additional significant feedback and conclusions reached were as follows:

- Paragraph .14f of AU-C section 930 need not be revised as the term "other information" is used in its generic sense and not as defined and used in AU-C section 720. The term "other information" is used generically throughout the standards. The ASB may consider global revisions at some point.
- Paragraph .A20 of AU-C section 930 which states that the auditor may find the guidance in AU-C section 720 useful in considering other information in documents containing interim financial information should be deleted as AU-C section 720 only applies to other information included in annual reports.

AU-C sections 725 and 730

Mr. Glynn noted that SAS 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, requires that the auditor's report include a separate section when required to address other information in annual reports, which is inconsistent with the requirements in AU-C sections 725 and 730 to address supplementary information and required supplementary information in other matter paragraphs. Because supplementary information and required supplementary information are comparable in nature to other information, the ASB agreed with proposed amendments to AU-C sections 725 and 730 to change the references to an other-matter paragraph to instead refer to a separate section in the auditor's report.

The ASB suggested that, in instances in which an entity has a combination of other information, supplementary information, and required supplementary information, subheadings be used to delineate the subject matter in the separate section in the auditor's report. The State and Local Government Expert Panel, which proposed the use of subheadings in this circumstance, will be asked to include such subheadings in the illustrative reports included in the State and Local Government Audit Guide. That audit guide is the only source of illustrative auditor's reports addressing a combination of other information, supplementary information, and required supplementary information.

AU-C Section 935 Amendments

Ms. Booker, Chair of the AU-C 935 Amendments Task Force (Task Force), led the discussion of proposed amendments to AU-C section 935, *Compliance Audits*.

Regarding the issues brought to the ASB:

- The ASB agreed with the revisions to the Appendix, *AU-C Sections That Are Not Applicable to Compliance Audits*.
 - a. Adding paragraphs 28-30 of AU-C 315 to the appendix does not have any implications because the requirements of AU-C 935 have the same effect.
 - b. The exclusion of AU-C section 701 is appropriate because KAMs apply in an audit of a full set of financial statements, which a compliance audit is not.
- The ASB agreed with presenting the combined report as the default but instructed the Task Force to add material addressing when the auditor chooses to prepare separate reports, and to describe this change in the ED wrap.
- The ASB agreed with the recommendation to not include “significant audit findings”, as the phrase “among other matters” encompasses it. The ASB asked the Task Force to consider adding a footnote referring to AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*
- The ASB were informed about the changes to Federal guidelines and that, subsequent to the agenda materials being posted, it was decided to issue a TQA for 2019.

The ASB also discussed the addition of the word “statutes”, which was added to align with wording in the Uniform Guidance. It was noted that different states use different terms; some don’t use laws, some don’t use statutes, so this change is more comprehensive.

The ASB directed the Task Force to do the following:

- Add the same application material about the report date that was added to AU-C section 940, as well as the footnote on the statement about auditor independence in the auditor’s report.
- Reconsider the definition of material noncompliance and the description included in the report.
- Consider adding a footnote reference to AU-C section 260.
- Consider whether additional insertions of the word “statutes” are needed.
- Consider why “whether due to error or fraud” was not included in AU-C section 935.
- Consider whether paragraph A35 should refer just to the auditor’s report and not specifically to the auditor’s report on compliance.
- In the illustrative combined report, move the paragraph starting “Our consideration of...” to follow the paragraph starting “A deficiency in...”
- Revise paragraph 30 to refer to “the auditor’s report on compliance *and internal control over compliance*”.
- Insert the word “material” in the illustrative report, in the “Auditor’s Responsibilities” section, before “noncompliance”.
- Paragraph A7, revise “material in relation to one of the types of compliance requirements” to “material to the compliance requirements”

AU-C section 940

Ms. Delahanty led the discussion of proposed conforming amendments to AU-C section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. In addition to SAS No. 134, the amendments made to PCAOB AS 2201: *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* as part of PCOAB Release AS 2017-001, *The Auditor's Report On An Audit Of Financial Statements When The Auditor Expresses An Unqualified Opinion And Related Amendments To PCAOB Standards*, were taken into consideration in developing the proposed conforming amendments to AU-C section 940.

Regarding the issues brought to the ASB:

- *Issue 1 – Auditor’s Responsibilities*
 - The ASB supported replacing, in paragraph 64e.iv, the sentence “An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists.” in the first paragraph of the auditor’s responsibilities section of the auditor’s report with “Internal control over financial reporting is not effective if a material weakness exists.”
 - The ASB supported option 1 in the issues paper for presenting the second paragraph of the auditor’s responsibility for the audit of ICFR section of the auditor’s report.
- *Issue 2 – Adverse Opinion on ICFR*. The ASB agreed with the proposed amendments to paragraph .71 of AU-C section 940 to require the disclosure about whether the auditor’s opinion on the financial statements was affected by the material weakness to be placed in a separate paragraph within the opinion section of the report on ICFR.
- *Issue 3 – Additional Information*. Paragraph .80 of AU-C section 940 addresses how to report when additional information is included either within management’s report or in a document containing management’s report. The ASB concluded that the additional information contemplated by AU-C section 940 would not be considered an annual report and therefore is not within the scope of SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*. The ASB asked staff to consider expanding paragraph .80 of AU-C section 940 to include guidance for reporting on the additional information when reporting on an audit of ICFR.

3. Conforming Amendments - Auditor’s Reporting: 800

Mr. Montgomery led the ASB in a discussion of proposed amendments, intended to reflect changes to the auditor’s report included in SAS No. 134. The ASB discussed revised drafts 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*
- AU-C section 810, *Engagements to Report on Summary Financial Information*.

After reviewing a draft of the proposed SAS that had been revised to reflect changes requested by the ASB, listed below, the ASB unanimously voted to ballot the draft of the proposed SAS for issuance as an exposure draft.

Specific Edits

AU-C Section 800

- Add paragraph .A46 of AU-C 570 to the paragraph reference in the footnote to paragraph 14.
- In paragraph A3 move the phrase “established by an authorized or recognized standard setting organization” to follow the words “such as U.S. GAAP.”
- In paragraph A12, to be consistent with paragraph 16 of AU-C 700, delete bullet “c” which states “Whether the information in the financial statements is presented in a manner that facilitates users’ ability to identify necessary information.”
- Revise paragraph A17 to indicate that the reason why the going concern basis of accounting may not be relevant to certain special purpose frameworks is that those frameworks do not specify an alternative basis of accounting to be used (such as the liquidation basis) when the entity is not a going concern. Therefore, management does not need to assess the entity’s ability to continue as a going concern.
- Revise paragraph A21 as shown below to reflect the July 2019 issuance of SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*

.A21 Section 720 addresses the auditor’s responsibilities relating to other information in the entity’s annual report. In the context of this section, an annual report is a document or combination of documents, reports containing or accompanying the special purpose financial statements the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the special purpose financial statements ~~are considered to be annual reports for the purpose of section 720. In the case of financial statements prepared using a special purpose framework, T~~the term “similar stakeholders” includes the specific users whose financial information needs are met by the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such an annual report, the requirements in section 720 apply to the audit of the special purpose financial statements.

- In the last bullet of Appendix B, “Fair Presentation and Adequate Disclosures” (paragraph A39) delete the words “such as the cash basis of accounting.”
- In the auditor’s report in illustration 4, reverse the order of the opinions so that the unmodified opinion on the regulatory basis of accounting precedes the modified opinion on GAAP
- In the auditor’s reports in Illustrations 3, 4, and 5, add the following footnote to the Management’s Responsibilities for the Audit section of the auditors’ report:

The description of management’s responsibilities relating to going concern required by paragraph 32b of AU-C section 700 may need to be included in this section of the report, adapted as necessary, depending on whether the going concern basis of accounting is relevant. See paragraph .A17 of this section.

- Paragraph A4 states that when reporting on financial statements prepared in accordance with the regulatory or contractual basis of accounting that is based on a general-purpose framework, the description of the applicable financial reporting framework would refer to the financial reporting provisions of the contract, rather than make any reference to U.S. GAAP. There may be instances in which contract provisions call for “GAAP with exceptions” and therefore a question exists regarding whether the transparency of the description of the contractual framework could be enhanced by referencing US GAAP. The SSARS ED currently open for comment does not contain the prohibition against referencing US GAAP. The ASB decided not to make this change.

AU-C Section 805

- Revise the second sentence of paragraph .A8 as shown below so that it is consistent with the language in paragraph A21

For example, although the requirements of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, ~~are likely to~~ may be relevant in the circumstances of an audit of a schedule of accounts receivable (see paragraph ~~A14-A12~~), complying with those requirements may not be practicable because of the audit effort required.

- In Illustrations 1, 3, 4, and 5, add the following footnote to the Management’s Responsibilities for the Audit section of the auditors’ report:

The description of management’s responsibilities relating to going concern required by paragraph 32b of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.

AU-C Section 810

- In the Auditor's Responsibilities for the Audit section of the auditor's report in Illustration 3 (which contains a disclaimer of opinion on the summary financial statements) revise the wording of the first sentence of the paragraph to agree with the wording of the Disclaimer of Opinion paragraph in Illustration 5 of AU-C 705 as shown below

~~Our responsibility is~~ We were engaged to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America.

- Also add the following sentence to that paragraph:

However, as a result of the adverse opinion on the audited financial statements discussed above, we do not express an opinion on the accompanying summary financial statements.

AU-C Sections, 800, 805 and 810

- In the exhibit to each of the AU-C 800 sections that contain illustrative reports, revise the note preceding the reports to indicate that the reports have been revised to conform with the proposed amendments to the applicable AU-C 800 section and that the reports are not marked from the extant reports because the extent of the changes to conform with SAS No. 134 would make the revised reports difficult to read.

4. Attestation Standards

The ASB discussed a draft of proposed AT-C section 215, *Agreed-Upon Procedures Engagements*, and proposed revisions to AT-C section 105, *Concepts Common to All Attestation Engagements*, specific to the revised agreed-upon procedures standard.

The significant feedback and conclusions reached were as follows:

- Because of issues regarding the practitioner's independence considerations resulting from proposed revised AT-C section 215, the ASB requested that the agenda materials for the October 2019 ASB meeting include the draft Q&A document that the Professional Ethics Executive Committee is considering for issuance simultaneously with the issuance of revised AT-C section 215.
- Requirements and guidance with respect to adding specified parties to the practitioner's agreed-upon procedures report after the release of the practitioner's report should be added to the proposed revised AT-C section 215.
- The proposed requirement to communicate to the responsible party known and suspected fraud and noncompliance with laws and regulations should be reviewed to assure that the

requirement is properly stated in accordance with the practitioner's responsibilities pursuant to the AICPA Code of Professional Conduct.

In addition, the ASB directed that specific edits, listed below, be made to the draft revised AT-C section 215.

A revised draft of proposed revised AT-C section 215, and proposed amendments to AT-C section 105, will be brought to the ASB at its October 2019 meeting for a vote to ballot to issue proposed revised AT-C section 215 as a final standard, which will include related amendments to AT-C section 105.

The ASB will address issues remaining related to finalizing AT-C section 205, *Examination Engagements*, and AT-C section 210, *Review Engagements*, at future meetings.

Specific Edits

The ASB directed that the following edits be made to the draft:

- Paragraph .A1, delete the reference to *subject matter information* as that concept will not be included in attestation literature as of the issuance of the revised AT-C section 215.
- Paragraph .A6, delete the phrase “including whether an understanding of relevant documents or agreements (for example, provisions of a contract) may be needed” from the guidance regarding practitioner considerations in determining whether procedures can be designed, performed, and reported on in accordance with AT-C section 215.
- Paragraph .11, revert to the language in the previous draft stating that, as a precondition for an agreed-upon procedures engagement, the procedures to be applied to the subject matter are expected to result in reasonably consistent findings.
- Paragraph .A22, delete the guidance stating “Additionally, while it is ordinarily not acceptable to modify and appropriately designed procedure for the purpose of eliminating exceptions found, there may be valid reasons for a procedure to be modified in order to eliminate immaterial findings. For example, the practitioner may perform a procedure that results in numerous immaterial findings that would not be important to users of the practitioner's report and, in order to present a more useful report, the procedure is revised to include a materiality threshold.”
- Paragraph .25, and throughout revised AT-C section 215, refer to “reporting thresholds” as opposed to “materiality thresholds.” In addition, reference application paragraph .A22.
- Paragraph .30, refer to the *appropriate* party not providing one or more written representations as opposed to the *responsible* party not providing such representations.

Further, revise subparagraph *a* to require the practitioner to discuss the matter with “the engaging or responsible party, as appropriate” as opposed to “the appropriate party.”

- Paragraph .41, refer to *appropriate party* as opposed to *responsible party* with respect to the requirement to document when such party does not provide one or more of the requested written representations.

5. Risk Assessment

The ASB discussed issues related to the IAASB’s proposed ISA 315, *Identifying and Assessing the Risks of Material Misstatements*. Mr. Harding led the presentation.

Significant comments or observations by the ASB members were as follows:

- A member raised the point that the PCAOB standard on risk assessment was taken into consideration in drafting the proposed ISA 315. Another member specifically suggested considering the PCAOB’s appendix that provides guidance on IT risks.
- On the issue of whether the PCAOB standard was considered, members noted that the IAASB holds informal discussions with the PCAOB, and the PCAOB provides input to the IAASB through the CAG.
- Mr. Harding highlighted the new drafting approach and noted that at the last meeting, the IAASB decided against moving the procedures from the requirements to the definitions section of the standard. Therefore, the latest version shows the procedures reconnected with the requirements.
- With respect to the area of internal control, the following observations and comments were made:
 - COSO—the ASB discussed options about referring to an internal control framework in the proposed standard. A key issue that the ASB will explore is whether the ASB’s proposed standard should be more aligned to the COSO because that is widely used in our jurisdiction.
 - Work Effort—Mr. Harding highlighted the issue identified by the Task Force that the work effort with respect to gaining an understanding to evaluate each component of internal control seems too onerous for the purpose of identifying and assessing the risks of material misstatement. The ASB suggested perhaps application material to clarify what evaluation means in this context.
 - Control Deficiencies—An ASB member raised the point that in determining whether one or more control deficiencies have been identified, there is no expectation that the operating effectiveness of controls have been assessed at this point.
 - Significant Account Balances, Classes of Transactions, and Disclosures—the ASB was supportive of the direction in the proposed ISA 315 but believes that more application material is needed to explain situations in which the significant account balances, classes of transactions may be disaggregated.

- Assessment of Control Risk—The ASB was supportive of the direction of paragraph 51 of the proposed ISA 315 wherein the auditor would only have to assess control risk in the situation when the auditor plans to test the operating effectiveness of controls.
- Paragraph 18 of AU-C 330—The ASB continues to believe that, given the robustness of the proposed ISA 315, paragraph 18 of ISA 330 is no longer needed. However, the ASB cautioned that the deletion of this paragraph from AU-C 330 might be interpreted as ISA-minus.

6. Quality Control

The ASB discussed issues related to the IAASB's *Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews*. Ms. Lord led the discussion.

The ASB discussed areas of concern raised in the ASB's comment letter on the exposure draft, including the need for implementation guidance, the proposed effective date, identification of entities of significant public interest, monitoring, and the cooling-off period. The ASB discussed convergence and the path forward. The ASB believes that convergence is necessary because having two different systems of quality management is not viable but will wait to begin revising the ASB quality standards until the IAASB standards are close to being finalized.

7. Group Audits

The ASB discussed issues related to the IAASB's project to propose revisions to ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. Ms. Burzenski led the discussion.

Issues discussed included

- The scope of ISA 600: whether it should focus on the supervision and review of other auditors, or audits of group financial statements, including when that audit involves the use of component auditors.
- The similarities and differences between a group audit that consists of, for example, a holding company and one bank, and an audit of a single entity with multiple locations in different countries.
- How to revise ISA 600 so that the focus is on special considerations of applying the other ISAs in a group audit with minimal duplication of the other ISAs

8. IAASB Update

Mr. Dohrer provided an update on IAASB activities other than those discussed above.