



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

January 13-16, 2020

San Diego, CA

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

Patricia Bottomly, *BDO*

AICPA Staff

Bob Dohrer, *Chief Auditor—Professional Standards & Services*

Linda Delahanty, *Senior Technical Manager—A&A Standards (by phone)*

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*

Teighlor March, *Asst. General Counsel—General Counsel & Trial Board*

Andy Mrakovcic, *Technical Manager—A&A Standards (by phone)*

Observers

Peter Alfele, *CliftonLarsonAllenLLP*

Sally Ann Bailey, *Deloitte & Touche LLP*

Ashwin Chandran, *BDO USA LLP*

Kathleen Healy, *PwC*

Curt Hurd, *Plante Moran*

Kristy Illuzzi, *AICPA, CPEA*

Ilene Kassman, *KPMG LLP (by phone)*

April King, *RSM US LLP (by phone)*

Nick Kostoff, *Ernst & Young*

Carole McNees, *Plante Moran*

Tammy Mooney, *AICPA, Audit Methodology and Guidance*

Karl Reuben (1/14 only), *AICPA, Dynamic Audit Solution*

Laura Schuetze, *Grant Thornton LLP*

Tania Sergott, *Deloitte & Touche LLP*

Patrick Tokarski, *Wolters Kluwer*

Mark Wells, *Thomson Reuters/PPC*

Duncan Will, *CAMICO Mutual Insurance*

Chair's Report

Mr. Santay reported on recent meetings he attended on behalf of the AICPA, including meetings with the PCAOB, FASB, and GAO (some of which included Mr. Dohrer). The ASB wished Jan Herringer well in her retirement and welcomed Patricia Bottomly as the incoming member, effective January 17, 2020.

The ASB approved October and December highlights unanimously, with one abstention.

1. 800 series

The ASB discussed proposed *SAS Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134*, as revised to respond to certain comments in comment letters on the ED and other comments by ASB members. After directing that certain changes be made, the ASB voted unanimously to ballot the proposed revised *SAS Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134*, as a final SAS.

Substantive changes to the proposed SAS made by the ASB at the meeting were as follows:

AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*

- Retain the content of paragraph .03 of AU-C 800, which addresses the applicability of Section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*, and move it to application guidance. (The exposure draft proposed deleting paragraph .03 of AU-C 800.)

AU-C 810, *Engagements to Report on Summary Financial Information*

- Paragraph .15 of AU-C 810 identifies the required elements of the auditor's report on summary financial statements. Add extant paragraph 15e(ii) (shown below) back to paragraph .15 as item 15 j(ii)
 - ii. If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, the auditor did not perform any audit procedures regarding the audited financial statements after the date of the report on those financial statements

Editorial changes to the proposed SAS made by the ASB at the meeting were as follows:

AU-C 800

- Make the following change to paragraph 14b.
 - b. When such substantial doubt exists, evaluate the adequacy of the financial statement disclosures ~~as required by the applicable financial reporting framework.~~¹²

- In all the illustrative reports in AU-C section 800, revise the definition of materiality in the Auditor’s Responsibilities for the Audit of the Financial Statements section of the report to agree with the definition of materiality in SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as shown below

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they could reasonably be expected to ~~would~~ influence the judgement made by a reasonable user based on the economic decisions of users made on the basis of these financial statements.

- In appendix A “Overview of Reporting Requirements” change the reference to section 905, *Alert That Restricts the Use of the Auditor’s Written*, to paragraph .21c of AU-C section 800 which addresses circumstances in which the auditor is required to restrict the use of the auditor’s report.
- In illustrative report 4, make the following revisions to the description of the titles of the financial statements being audited:

...the statement of net position — regulatory basis as of December 31, 20X1, and the related statements of revenues, expenses, and changes ~~the statement of in~~ net position—regulatory basis and cash flows—in net position regulatory basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the regulatory basis net position of ABC Government Authority as of December 31, 20X1, and the regulatory basis revenues, expenses, and changes in net position and regulatory basis cash flows thereof for the year then ended...

- In the last sentence of the Auditor’s Responsibilities for the Audit of the Financial Statements section of illustrative reports 4 and 5, insert the word “certain” before the words “internal control –related matters.”
- In illustrative report 5, define the contract in the opinion section of the report rather than in the Responsibilities of Management for the Financial Statements section, as shown below

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and liabilities of ABC Company as of December 31, 20X1, and revenues, expenses, changes in equity, and cash flows for the year then ended in accordance with the financial reporting provisions of Section Z of the contract between ABC Company and DEF Company dated January 1, 20X1 (the contract).

AU-C 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*

- In the Auditor’s Responsibilities for the Audit of the Financial Statements section of the illustrative reports in AU-C section 805,
 - revise the definition of materiality to agree with the definition of materiality in SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as

shown below

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they could reasonably be expected to ~~would~~ influence the judgement made by a reasonable user based on the economic decisions of users made on the basis of these financial statements.

— replace the words “generally accepted auditing standards” with “GAAS”

- Revise the fourth bullet in the list of engagement circumstances that precedes illustrative report 3 as follows:

Management determined that the going concern assessment in accounting principles generally accepted in the United States of America GAAP does not apply to the preparation of a specific element, account, or item of a financial statement the schedule of accounts receivable. The auditor agrees with management’s determination regarding the applicability of the going concern assessment to the preparation of the schedule of accounts receivable. Although a going concern assessment was made in the preparation of the entity’s complete set of financial statements from which the financial information being reported on has been derived, the going concern assessment period is significantly different because the schedule of accounts receivable is anticipated to be issued several months after the full set financial statements were issued.

AU-C 810

- Paragraph .15 of AU-C 810 identifies the required elements of the auditor’s report on summary financial statements. Add extant paragraph 15*e*(ii) (shown below) to paragraph .15 as item 15 *j*(ii); this paragraph was in extant and was proposed to be deleted in the exposure draft
 - ii. If the date of the auditor’s report on the summary financial statements is later than the date of the auditor’s report on the audited financial statements, the auditor did not perform any audit procedures regarding the audited financial statements after the date of the report on those financial statements

- Delete the word “Other” in the headings above paragraphs 26 and A22(~~Other~~ Information in Documents Containing Summary Financial Statements)
- Make the following changes to the fourth bullet of the engagement circumstances that precede illustrative report 1

The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which the summary financial statements are derived.^{1,2}

- ¹ If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, the following statement is added to the Summary Financial Statements section of the report: "The audited financial statements, and the summary financial statements derived therefrom, do not reflect the effects of events, if any, that occurred subsequent to the date of our report on the audited financial statements."
 - ² If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, the following statement is added to the Auditor's Responsibility section of the report: "We did not perform any audit procedures regarding the audited financial statements after the date of the report on those financial statements."
- In illustrative report 2, because the date of the auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the audited financial statements,
 - delete the following footnote from the fourth bullet of the engagement circumstances that precedes illustrative report 2:
 - ² ~~If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, the following statement is added to the Auditor's Responsibility section of the report: "We did not perform any audit procedures regarding the audited financial statements after the date of the report on those financial statements."~~
 - delete the following sentence from the Auditor's Responsibility section of the report
~~We did not perform any audit procedures regarding the audited financial statements after the date of our report on the audited financial statements.~~
 - In the Disclaimer of Opinion section of illustrative report 3, insert the word "derive" before the words "from the audited financial statements."
 - Revise footnote 1 and add footnote 2 to the fourth bullet of the engagement circumstances that precede illustrative report 4 because the auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived, as shown below
 - ¹ ~~If~~ ~~When~~ the date of the auditor's report on the summary financial statements is ~~dated~~ later than the date of the auditor's report on the audited financial statements, the following sentence is added to the Summary Financial Statements section of the report ~~this paragraph~~: "The audited financial statements, and the summary financial statements derived therefrom, do not reflect the effects of events, if any, that occurred subsequent to the date of our report on the audited financial statements."
 - ² If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, the following statement is added to the Auditor's Responsibility section of the report: "We did not perform any audit procedures

regarding the audited financial statements after the date of the report on those financial statements.”

- In the opinion section of illustrative report 4, replace the word “paragraph” with the word “section.”

2. Audit Evidence

Mr. Brodish, chair of the Audit Evidence Task Force (Task Force), led the ASB in a discussion of proposed SAS *Audit Evidence*. Significant comments or observations by the ASB members were as follows:

- In response to a question by a member, Mr. Dohrer noted that the International Auditing and Assurance Standards Board (IAASB)’s Audit Evidence project is in its research phase. The IAASB Audit Evidence Working Group is conducting outreach to key stakeholders to solicit input. These outreach activities include considering the comment letters received by the ASB in connection with the Audit Evidence Exposure Draft.
- The ASB was generally supportive of the revisions to the requirements section made in response to the feedback the ASB provided in the December 6, 2019 conference call.
- With respect to the examples and application material related to the use of automated tools and techniques, the ASB was supportive of the edits made by the Task Force in paragraph A4 of the proposed SAS. The ASB directed the Task Force to consider whether the types of automated tools and techniques listed in the application material is consistent with the guidance used by other stakeholders, such as the CAQ. In addition, the ASB directed that the Task Force to develop additional application guidance emphasizing certain considerations (for example, completeness and accuracy of data, model reliability, etc.) when using automated tools and techniques.
- The ASB supported, with further editorial suggestions, proposed edits to paragraph A12 of the proposed SAS to make it clearer that the auditor’s evaluation whether sufficient appropriate audit evidence has been obtained in accordance with AU-C section 330 is not solely dependent upon the quantity or physical measurement of audit evidence.
- The ASB supported, with editorial suggestions, a proposed conforming amendment to AU-C section 200 to provide guidance on auditor bias.
- Proposed edits to the application material dealing with the notion of authenticity were made to address the concerns about the clarity of that guidance raised by responders to the Exposure Draft. The ASB expressed concern that paragraph A35 of the proposed SAS conflates two issues: 1) the auditor’s consideration of the entity’s controls when information has been transformed to electronic media and 2) the procedures that the auditor may determine necessary when the auditor believes that a document obtained by the auditor may not be authentic. After discussion, the ASB instructed the Task Force to edit the paragraph to address these two issues.
- The ASB expressed support for the example in paragraph A62 of the proposed SAS as being written at an appropriate level of specificity.

- The ASB discussed the relocation of the Management’s Specialist content that currently is included in extant AU-C section 500 and decided to relocate this content to AU-C section 501 until the ASB undertakes a project to address issues related to AU-C section 501 more broadly.

The Task Force will present an updated proposed SAS at the ASB meeting scheduled for April 27-30, 2020 with the aim of finalizing the proposed SAS as a final standard in that meeting.

3. NOCLAR

The ASB considered proposed revisions to AU-C section 210, *Terms of Engagement*, to enhance the requirements regarding communication to successor auditors, specifically with regard to the communication of actual or suspected instances of an entity’s noncompliance with laws or regulations (NOCLAR) or fraud if the predecessor auditor withdraws from an engagement, decides not to stand for reappointment, or is terminated.

The ASB was generally in favor of exposing the proposed revisions for public comment and supported the Task Force comments that the proposed changes are in the public interest. As part of the discussion, the ASB considered information that several state board rules or state laws may preclude a predecessor auditor from responding to a successor auditor’s inquiries with respect to identified or suspected fraud or matters involving NOCLAR without explicit client consent. The ASB considered requiring the auditor to obtain explicit consent from the client, either as a precondition for the audit or as a required element of the terms of the engagement. The ASB also considered a requirement for the auditor to determine whether any laws or regulations would limit the predecessor’s response. However, the ASB concluded that further information is needed on the nature of the restrictions prior to finalizing the proposed exposure draft.

The ASB directed the Task Force to obtain additional information with respect to state and US territories laws and regulations.

The ASB will continue discussion of a potential exposure draft at its April 2020 meeting.

4. Risk Assessment

The ASB discussed matters relating to a proposed SAS, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, that would converge with International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatements*, (ISA 315), recently issued by the International Auditing and Assurance Standards (IAASB). Mr. Harding led the presentation.

Significant comments or observations by ASB members were as follows:

- A member expressed a concern that because the proposed standard differs from the PCAOB AS 2110: *Identifying and Assessing Risks of Material Misstatement*, in particular

with respect to gaining an understanding of the internal control components, it will be harder for auditors to navigate two sets of standards. The proposed SAS differentiates between indirect and direct components of internal control, which AS 2110 does not. Mr. Harding explained that the intent of the distinction is to acknowledge that certain components which have a less direct impact on the financial statement risks still have an indirect impact, so understanding and evaluating the items listed under each component is important to identify and assess risks of material misstatement.

- The ASB discussed a proposed conforming amendment to paragraph 18 of AU-C section 330 to align it more with AS 2110. The amendment would change paragraph 18 of AU-C section 330 to refer to *significant* class of transactions, account balance, and disclosure, instead to *material* class of transactions, account balance, and disclosure. The ASB discussed the differences that currently exists between paragraph 18 of AU-C section 330 and paragraph 18 of ISA 315. After discussion, the ASB was supportive of the proposed amendment and directed the Task Force to further consider making edits to paragraph 18 of AU-C section 330 to make the requirement clearer.
- A member noted that content in the proposed SAS relating to variable interest entities seems to be aligned with IFRS and suggested that the Task Force consult with FinRec to make sure the content is consistent with GAAP.
- A member asked whether examples in the proposed SAS could be relocated to the risk assessment audit guide. Mr. Harding explained that the Task Force believes that the examples are necessary to more fully explain the application material and should be retained in the proposed standard. After discussion, the ASB decided to keep the examples in the proposed SAS, but the examples could be further explained in the audit guide.

The following were the significant matters in the proposed SAS discussed by the ASB:

- Gaining an understanding of the components of internal control—for each of the components of internal control, the auditor will be required to gain an understanding of certain matters related to each component of internal control and evaluate certain aspects of the controls within each component. A member expressed concern about the term “evaluate.” He explained that as articulated, the term “evaluate” seems to convey that the auditor would have to perform procedures similar to the procedures that the auditor would be required to evaluate design and implementation of controls (D&I procedures). Mr. Harding explained that paragraph 26d contains the explicit requirement for the auditor to perform (D&I procedures), which relates to the control activities component, and that the draft standard explains that the control activities component includes controls that are designed to ensure the proper application of policies (which are also controls) in all the other components. A member expressed caution about changing the terminology in the requirement but suggested that the Task Force consider adding application material to better explain the work effort required in gaining an understanding of the components of internal control and performing the required evaluation, including D&I procedures when required.
- Paragraph A109a explains that in obtaining an understanding of the entity’s risk assessment process, AU-C section 240 also requires the auditor to make inquiries of

management regarding, among other things, management's process for identifying, responding to, and monitoring the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist. A member asked the question whether this guidance suggests that the auditor would be required to obtain an understanding of controls and perform D&I procedures on controls within the entity's risk assessment process (similar issue as discussed above).

- Mr. Harding highlighted that paragraph 25c has been edited by the Task Force to explicitly note that the auditor's evaluation of the information and communication component is based on the understanding in sub-paragraphs 25a-b. A member expressed concern about this edit, because the auditor's understanding of the information and communication component may not necessarily be limited to the understanding required under sub-paragraphs 25a-b. The ASB directed the Task Force to further consider this comment.
- A member raised the issue whether the Task Force considered the requirement in extant AU-C section 315 that requires the auditor to obtain an understanding of the process of reconciling detailed records to the general ledger for material account balances. Mr. Harding explained that it was the Task Force's view that this requirement is addressed in paragraph 25. The Task Force was directed to keep this requirement as a sub-paragraph to paragraph 26.
- A member recommended the Task Force consider language to clarify the "controls over journal entries" referenced in paragraph 26a(ii), as many entities use journal entries to record routine transactions such as revenue and expenses. The Task Force will explore language that distinguishes processing of routine transactions from other adjustments to accounting records used to prepare financial statements.
- Mr. Harding requested feedback about the "catchall" category of controls in the control activities component described in paragraph 26a(iv). A member suggested the Task Force include application material referencing estimates as a potential example of an area that may involve such controls, in a manner consistent with guidance in the Estimates ED.

The Task Force plans to discuss an updated draft of the proposed standard at the next ASB meeting in April 2020 with the aim of voting out the proposed standard for exposure at the July 2020 ASB meeting.

5. TIC Liaison Meeting

The two groups met and discussed risk assessment, quality control, scalability and ASB strategy.

6. AU-C-501

Ms. Bottomly led the ASB in a discussion about the scope of a new project. Initial identification of the scope of this project comprised potential amendments to

- a) content addressing management's specialists currently in AU-C section 500, to eliminate unnecessary differences with AS 1105, *Audit Evidence – Appendix A, Using the Work of a Company's Specialist as Audit Evidence* and other

- amendments in PCAOB Release No. 2018-006, *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists*; and
- b) relevant requirements and application paragraphs in AU-C section 501 to eliminate unnecessary differences with AS 2501: Appendix A—Special Topics, *Identifying and Assessing Risks of Material Misstatement Related to the Fair Value of Financial Instruments*, specifically related to use of pricing services.

The ASB suggested that the project also address PCOAB amendments that created appendixes on auditor-engaged and auditor-employed specialists. One member suggested that the proposal expand to include a review of AICPA Audit & Attest Guides with guidance on alternative investments for consistency; however, that review would need to involve the expert panels that develop the Guides and was not agreed to be in scope of this project

The ASB suggested that outreach to those involved with private company valuations be performed to understand whether and how private company approaches to pricing services are different from that of public companies, in order to determine what differences between GAAS and PCAOB standards are appropriate. A comparison was made to the FASB's practical expedients, where principles remain the same.

The ASB also discussed placement of the related requirements within GAAS and expressed no objections to the alternatives suggested and that this need not be determined in advance.

A project proposal will be brought to the ASB Audit Issues Task Force for approval at its next meeting in February and if approved, a task force will be formed and the ASB will discuss issues related to this project at its April meeting.

7. ASEC-ASB Liaison Meeting

The ASB met with the Assurance Services Executive Committee and discussed projects of mutual interest.

8. Estimates

Ms. Burzenski, chair of the Estimates Task Force (task force), led the ASB in a discussion of preliminary feedback from the comment letters received on the "Requests for Comment" in the exposure draft *Proposed Statements on Auditing Standards—Auditing Accounting Estimates and Related Disclosures*. The ASB discussed eight issues and provided the following direction to the task force.

Issue 1 — Fair Presentation (Paragraph 36)

The ASB discussed comments received on the requirement in paragraph 36 for the auditor to, in relation to the accounting estimate, evaluate whether management has included disclosures beyond those specifically required by the applicable financial reporting framework, that are necessary to achieve the fair presentation of the financial statements as a whole. The ASB supported retaining this requirement because when an accounting estimate is subject to a higher degree of estimation

uncertainty, the auditor may determine what additional disclosures are necessary. Further, the ASB believes that paragraph A144 provides the auditor with good guidance on how to apply the requirement.

The ASB directed the task force to consider adding application material to paragraph 36 of the proposed SAS from paragraph A16 of AU-C section 700 that says “The auditor’s professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework.”

Issue 2 — Impairment Considerations (Paragraph A27)

The ASB agreed to remove paragraph A27 from the proposed SAS as it is not considered necessary.

Issue 3 — Scope and Structure of the Proposed SAS

The ASB continued to support the retention of the risk assessment guidance within the proposed SAS. The ASB asked the task force to retain the current structure of the proposed SAS and to consider (a) the amendments to ISA 540 (Revised) that resulted from the issuance of ISA 315 (Revised) and whether any of those amendments can be made through this project, or to coordinate possible changes with the risk assessment task force; and (b) whether there are any broader concepts from the proposed SAS that should be included in AU-C section 315 that are not being contemplated by the Risk Assessment task force.

Issue 4 — Fair Value Measurements

The ASB directed the task force to retain the title of the proposed SAS as proposed. The ASB asked the task force to consider whether the definition of accounting estimate should call out fair value measurements by bringing some of the content from paragraph A14 into the definition. The ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included.

Issue 5 — Professional Skepticism

The ASB believes that the IAASB spent considerable effort integrating the application of professional skepticism in ISA 540 (Revised) and directed to task force to retain the structure of the proposed SAS.

Issue 6 — Use of the term reasonable

The ASB supported retaining the term “reasonable” because it is a term that is used in the standards. To introduce a new term may have unintended consequences.

Issue 7 — AU-C Section 501

The ASB supported the placement in the proposed SAS of content from AU-C section 501 and agreed that any further changes necessary relating to Appendix A, “Special Topics,” of PCAOB Release 2018-005, or other sections of AU-C section 501 should be addressed by a separate project. See the highlights for agenda item 6.

Issue 8 – Effective Date

The ASB discussed the importance of aligning the effective date of this proposed SAS with the risk assessment project to converge AU-C section 315 with ISA 315 (Revised). The ASB also discussed whether the Audit Evidence project should also have the same effective date. The ASB asked the task force to give further consideration to options for an effective date, including whether to

- retain the effective date as proposed, and then postpone that effective date if the risk assessment project is delayed, or
- postpone the effective date for the proposed SAS for another year (that is, for periods ending on or after December 15, 2023) while recognizing that early implementation is permitted, for the benefit of those firms who wish to update their methodology for the ISAs and GAAS at the same time.

The ASB also discussed voting the proposed SAS as final and deferring issuance until comment letters are received on the risk assessment project.

The ASB will consider revisions to the proposed SAS in response to the comment letters received at its next meeting in March 2020.

9. Attestation Standards

The ASB has undertaken a project to revise certain attestation standards to enable a practitioner to examine or review subject matter when the responsible party has not measured or evaluated the subject matter or does not provide a written assertion (a direct engagement). These engagements would provide the public with confidence in information related to a growing number of subject matters. In July 2018 the ASB issued an exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification* (ED) that, in part, would revise AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; and 210, *Review Engagements*, to provide for direct engagements.¹

At its January 13–16, 2020 meeting the ASB discussed a revised draft of AT-C section 105 that would enable practitioners to perform direct examination and review attestation engagements by introducing that option in AT-C section 105 while retaining the option for the practitioner to

¹ The exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification* also proposes revision to AT-C section 215, *Agreed Upon Procedures Engagements*. In November 2019 the ASB issued SSAE No. 19 *Agreed Upon Procedures Engagements*, which finalized that portion of the project.

perform traditional assertion-based examination and review engagements under AT-C sections 205 and 210, respectively.

The ASB provided the following comments about the proposed revisions to AT-C section 105 and whether AT-C sections 205 and 210 should continue to require the practitioner to request a written assertion from the responsible party:

- Rather than retaining the requirement to request a written assertion, the attestation standards should provide guidance on factors the practitioner should consider in determining whether to request a written assertion, for example, if a regulator requires the responsible party to perform its own measurement or evaluation of the underlying subject matter against the criteria
- Consider deletion of the underlined words in the following sentence of new paragraph A2 of AT-C section 105 because it implies that an assertion is of little evidential value to the practitioner, and some ASB members disagree with this view.

The fact that the practitioner does not obtain an assertion in a direct engagement does not prevent the practitioner from achieving the required level of assurance because an assertion is not evidence.

Other ASB members held the view that obtaining an assertion should be considered the equivalent of obtaining management representations when auditing financial information.

The ASB had the following comments with regard to the proposal to provide for direct examination and review engagements by defining that term in AT-C section 105 and indicating that certain requirements existing in AT-C sections 205 and 210 may need to be adapted and applied in the performance of a direct engagement or supplemented as necessary in the engagement circumstances:

- The ASB did not object to this proposal but noted that additional implementation guidance may need to be developed to assist practitioners in determining how to adapt and apply or supplement specified requirements and application guidance, for example, by providing such guidance in the application paragraphs of AT-C section 105 in the form of additional examples, like the example provided in paragraph A2 of the draft, in an appendix to AT-C section 105, or in a practice aid.
- The portion of new paragraph .02 of AT-C section 105 which states in part,

...certain requirements existing in AT-C sections 205 or 210 may need to be adapted and applied in the performance of a direct engagement or supplemented as necessary in the engagement circumstances.

should be revised to state the following:

In a direct examination engagement, the practitioner is required to apply AT-C section 205 or 210, adapted as necessary.”

- Some ASB members recommended that AT-C sections 205 and 210 be amended or new AT-C sections “205.1 and 210.1” be developed to identify the primary differences between direct and assertion-based examinations and reviews
- Some ASB members questioned whether a direct review engagement could be performed because the practitioner would be “measuring or evaluating” the USM and questioned whether the measurement or evaluation could be done by using analytical procedures and inquiry.

With regard to the use of the terms *underlying subject matter* (USM) and *subject matter information* (SMI)² the ASB had the following comments:

- In enabling direct engagements, the ASB supports the use of the terms USM and SMI because using those terms clarifies that in a direct examination or review, the practitioner needs to be independent of the USM but not necessarily the SMI
- To help practitioners understand the difference between USM and SMI, members of the ASB requested that examples of USM and SMI be included in the application guidance of AT-C section 105 or in a practice aid. However, determining whether subject matter should be considered as USM or SMI depends on the facts and circumstances and what the practitioner is engaged to report on.
- Some ASB members object to the use of the term *phenomenon* in the definition of USM because the term is not commonly used in the US. The definition of *subject matter* in extant AT-C section 105 and the definition of *underlying subject matter* in ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, includes the word *phenomenon*.
- Given that the terms *direct examination* and *direct review* represent new concepts, AT-C sections 105, 205 and 210 should use the following drafting conventions to identify the type of engagement being referred to
 - *assertion-based examination or review*, when the requirement or application guidance applies only to assertion-based examinations or reviews
 - *direct examination or review*, when the requirement or application guidance applies only to direct examinations or reviews
 - *examination or review*, when the requirement or application guidance applies to both assertion-based and direct examinations or reviews

With regard to the revised draft of AT-C section 105, the ASB

² *underlying subject matter*. The phenomenon that is measured or evaluated by applying criteria
subject matter information. The outcome of the measurement or evaluation of the underlying subject matter against the criteria.

- recommended that new paragraph .02, which describes assertion-based and direct engagements, be revised to indicate that the paragraph does not apply to agreed-upon procedures engagements.
- discussed whether the current precondition in paragraph 25a (that the responsible party take responsibility for the underlying subject matter) would be the same for both direct and assertion-based examination and review engagements and tentatively concluded that it would
- discussed whether a change in the terms of the engagement, for example, from an assertion-based examination engagement to a direct examination engagement would be considered a change to a lower level of service as described in paragraph .29 requiring the practitioner to determine whether the engaging party has reasonable justification for such a change, and tentatively concluded that it would not because both services entail obtaining reasonable assurance

With regard to proposed changes to AT-C sections 205 and 210, ASB members noted that

- AT-C section 210 should be revised to provide for an adverse conclusion in a review engagement to conform with the change introduced in Statement on Standards for Accounting and Review Services No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*.
- The practitioner's reports for a direct engagement and an assertion-based engagement may ultimately contain some differences in language, but the practitioner's opinion would be the same in both reports because the practitioner would obtain the same level of assurance in both engagements.
- AT-C sections 105, 205, and 210 would need to provide for situations in which a party other than the responsible party or the practitioner has measured or evaluated the subject matter against the criteria

The Attestation Task Force will present revised drafts of AT-C sections 105, 205, and new AT-C section addressing direct examination engagements at the ASB's April 2020 meeting.

10. IAASB Update

Mr. Dohrer presented an update on the activities of the IAASB.