



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

March 11, 2020

Teleconference

### MEETING ATTENDANCE

#### ASB Members

Mike Santay, *Chair*  
Brad Ames  
Monique Booker  
Patricia Bottomly  
Jay Brodish  
Joseph Cascio  
Harry Cohen  
Jeanne Dee  
Audrey Gramling  
Tracy Harding  
Jon Heath  
Kristen Kociolek  
Sara Lord  
Alan Long  
Marcia Marien

#### Absent

Dora Burzenski  
Larry Gill  
Gaylen Hansen  
Aaron Saito

#### 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*  
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*  
Marilyn Brindle, *Eide Bailly*  
Mary Foelster, *AICPA, Governmental Accounting & Auditing*  
Lynford Graham, *Lynford Graham, CPA*  
Harrison Greene, *Federal Deposit Insurance Corporation*  
Josie Hammond, *RSM US LLP*  
Kathleen Healy, *PwC*  
Matthew Hodder, *SEC*  
Kristy Illuzzi, *AICPA, CPEA*  
Ilene Kassman, *KPMG LLP*  
Carrie Kostelec, *Wolters Kluwer*  
Nick Kostoff, *Ernst & Young*  
Jennifer Lightfoot, *Eide Bailly, LLP*  
Steve Morrison, *CohnReznick LLP*  
Liz Olson, *BDO USA LLP*  
Alison Parker, *Thomson Reuters*  
Joe Paulus, *Wipfli LLP*  
Rick Reisig, *Anderson ZurMuehlen*  
Laura Schuetze, *Grant Thornton LLP*

Tania Sergott, *Deloitte & Touche LLP*  
Patrick Tokarski, *Wolters Kluwer*

## **Chair and Chief Auditor Report**

Mr. Santay and Mr. Dohrer discussed the April ASB meeting, which is scheduled to be held in at Grant Thornton's office in Chicago. The situation continues to be monitored; if the meeting is not held at Grant Thornton, it will be held remotely. Should the meeting be held in-person, the ability to participate through video call will be provided.

### **1. 900 series**

*Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

The ASB discussed proposed SAS *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137*, as revised to respond to certain comments in comment letters on the ED and other comments by ASB members. After directing that changes described below be made, all 15 ASB members in attendance voted unanimously to ballot the proposed revised SAS as a final SAS.

The significant feedback and conclusions reached were as follows:

#### AU-C 730, *Required Supplementary Information*

- Revise paragraphs .08 and .09 and the illustrative reports in paragraph .A3 of AU-C section 730 to require a statement that management is responsible for the required supplementary information.

#### AU-C 930, *Interim Financial Information*

- Retain the heading "Basis for Review Results" in the auditor's review report, rather than title the section "Auditor's Responsibility." Although the latter title is consistent with other auditor reporting standards and contrasts with the section titled "Responsibilities of Management for the Interim Financial Information", the ASB concluded not to use a heading with the term "Auditor" so as not to mislead a user of the report that an opinion was issued on the interim financial information.

#### AU-C 935, *Compliance Audits*

- Paragraphs 11, 30g, and 43: The last phrase of the definition of material noncompliance was revised to read "...it would influence the judgment made by a reasonable user of the report on compliance about the entity's compliance with the requirements of the government program as a whole ~~by a reasonable user of the report on compliance~~

- Paragraph A37, delete the beginning of the sentence until the words “Government Auditing Standards”.

AU-C 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements

- Paragraph .64f.ii: Remove the statement “internal control over financial reporting is not effective if a material weakness exists” from the auditor’s responsibilities section of the auditor’s report on ICFR because it is not an auditor responsibility and AU-C section 940 provides sufficient guidance on reporting when a material weakness exists.
- Paragraph 76:
  - Remove the requirement for the placement of the information about the material weakness in a separate section in the auditor’s report to allow for auditor’s to use their professional judgment.
  - Add a new requirement (paragraph .76b.) to include a statement that “if one or more material weaknesses exist, an entity’s internal control over financial reporting cannot be considered effective.”
  - Retain illustration 3 as proposed and include footnotes to explain that the placement of this information is not required by GAAS.
- Paragraph 80: Add application material to better explain the interplay between “additional information” and “other information” as defined in AU-C section 720

Effective Date

The ASB discussed whether it continued to support an effective date consistent with SAS No. 134 or whether the effective date should be later with early implementation permitted. The ASB concluded that it is appropriate to have an effective date consistent with SAS No. 134.

In addition, various editorial changes to the proposed SAS were made by the ASB at the meeting.

**2. Estimates**

Ms. Healy led the ASB in a discussion of proposed SAS *Auditing Accounting Estimates and Related Disclosures*. Significant comments or observations by the ASB members were as follows:

In particular, the ASB discussed the following topics contained in the issues in agenda item 2 and provided the following direction to the Estimates Task Force (task force):

- *Fair Presentation* (Paragraph 36): The ASB directed the task force to consider moving the proposed new content to application material rather than including as part of the requirement to better align with AU-C 700, *Forming an Opinion and Reporting on Financial Statements*.
- *Fair Value Measurements*: After discussing the definition of an accounting estimate in paragraph 11 of the proposed SAS, the ASB continued to support retaining as application material, in paragraph A14, that “a fair value measurement is a form of accounting estimate.” The ASB discussed the term “fair value measurement” as used in generally accepted accounting principles as promulgated by the Financial Accounting Standards Board (GAAP) and asked the task force to consider ways to better link to the accounting framework terminology.
- *Effective Date*: The ASB discussed the importance of aligning the effective date of the proposed SAS with the Risk Assessment project to converge AU-C section 315 with ISA 315 (Revised 2019). The ASB also discussed whether the proposed Audit Evidence SAS should have the same effective date and was supportive of exploring a different effective date for the Audit Evidence SAS. The ASB asked the task force to give further consideration to options for an effective date, including whether to use a beginning-of-year or end-of-year convention.
- *Scope and Structure of the Proposed SAS*: The ASB agreed with the task force’s recommendation to propose amendments to the Estimates SAS, when voted final, to align with the risk assessment project, and for those proposed amendments to be included in the risk assessment exposure draft. The task force will draft the proposed amendments.
- *Retrospective Review* (Issue #1): The ASB discussed whether further clarification is needed in response to the comments received on the exposure draft relating to paragraph 13 of the proposed SAS and whether the application material in paragraph A58 and the requirement in paragraph 13 conflict. The ASB concluded that no changes to the proposed SAS as exposed were necessary in this regard.
- *Communication With Those Charged with Governance* (Issue #2): The ASB continued to support aligning the structure of the proposed SAS with ISA 540 (Revised) and retaining appendix B of the proposed SAS in the proposed SAS, rather than placing the content of Appendix B in AU-C section 260. The ASB asked the task force to consider ways to clearly show the interaction between AU-C 260 and appendix B of the proposed SAS.

The following are other areas of the proposed SAS that were discussed by the ASB:

- Paragraph 4 — The ASB asked the task force to further clarify the separate assessment of inherent and control risk and proposed specific wording at the meeting.
- The ASB agreed with the proposed changes in paragraphs 21, 29, 31, A1, A27, A33, A56, A57, A82, A126, A128 and A146

- Paragraph 38 — The ASB expressed concerns regarding the extent of documentation needed. The ASB asked the task force to remove “(whether related to inherent risk or control risk)” from paragraph 38b. because the application material adequately explains the expectation and this parenthetical content may cause more confusion if retained.
- Paragraph A31 — The ASB questioned whether the proposed changes to paragraph A31 would change the intent of ISA 540 (Revised), because a consideration of whether “those charged with governance are independent from management” may be different from whether “those charged with governance are involved in managing the entity”. The ASB asked the task force to reconsider the proposed edits to this paragraph and to consider whether the meaning of the paragraph has been changed.
- Paragraph A61 — The ASB discussed whether, in the context of the retrospective review, the auditor would only reassess control risk and not consider inherent risk. The ASB noted that in some situations the auditor may not reassess control risk but rather may determine that more persuasive audit evidence needs to be obtained. The ASB asked the task force to reconsider the guidance in this paragraph.

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.