



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

July 20-23, 2020

Videoconference

MEETING ATTENDANCE

ASB Members

Tracy Harding, *Chair*

Brad Ames

Monique Booker

Patricia Bottomly

Joseph Cascio

Sherry Chesser

Harry Cohen

Jeanne Dee

Horace Emery

Audrey Gramling

Robert Harris

Kathy Healy

Jon Heath

Clay Huffman

Kristen Kociolek

Sara Lord

Maria Manasses

Chris Rogers

Tania Sergott

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*

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

Andy Mrakovic, *Technical Manager—A&A Standards*

Note: The meeting was open to observers, whose names are not listed.

Chair and Chief Auditor Report

Mr. Harding provided an update on recent activities. Mr. Dohrer informed the ASB about the AICPA's efforts to provide guidance on dealing with the pandemic. He also provided an update on the activities of the IAASB, and briefly discussed the Monitoring Group Report that was recently issued.

The highlights of the May 2020 ASB meeting were approved unanimously.

Mr. Dohrer thanked Mr. Cascio, who is leaving the ASB, for his years of service.

1. Attestation Standards

Ms. Dee, chair of the Attestation Standards Task Force, led the ASB in discussion of a proposed standard that would revise AT-C sections 105, *Concepts Common to All Attestation Engagements*; and 205, *Examination Engagements*; and create a new AT-C section (designated as AT-C section 206, *Direct Examination Engagements*).

A vote to ballot the proposed standard for issuance as a final standard was on the agenda; however, some ASB members indicated that they were not ready to vote to finalize the SSAE because they needed additional time to review the changes made during the July meeting. Accordingly, the ASB agreed to schedule an open meeting [subsequently scheduled for August 12, 2020] to vote to ballot the proposed SAS for issuance as a final standard.

ASB members directed that the following revisions be made:

AT-C section 205

- To clarify the convention used in AT-C 205 to differentiate underlying subject matter from subject matter information and subject matter, revise paragraph .01 to state “For purposes of applying this section, the term subject matter encompasses the terms underlying subject matter and subject matter information, as defined in AT-C section 105. unless a requirement relates specifically to If only one of these terms is applicable, that term is used.”
- Wherever applicable, change the phrase “whether the underlying subject matter is in accordance with (or based on) the criteria, in all material respects or whether the subject matter information is fairly stated in all material respects” to “whether the subject matter as measured or evaluated against the criteria is free from material misstatement.” (paragraph 3a, A3a)
- In the definition of risk of material misstatement, change *subject matter information* to *assertion*.
- In paragraph .08, delete the itemization of the responsible party’s responsibilities in paragraph 8d(i–ii).
- In paragraph .06, delete the words “report on the subject matter or assertion” in both places.
- In paragraphs A4-A5, replace “identifying the criteria” with “selecting the criteria.”
- Revise the following sentence in paragraph .67, and move it to paragraph 10, as follows: ~~Before the practitioner reports on the responsible party’s assertion, the practitioner~~ should use professional judgment in determining whether management has a reasonable basis for making its assertion.
- Revise paragraph 19b as follows: “to support the practitioner’s opinion about whether the subject matter is in accordance with (or based on) the criteria, in all material respects”

- Revise the last bullet of paragraph. A29 as follows: ...allow the practitioner to obtain reasonable assurance to support the practitioner's opinion about whether the subject matter is in accordance with (or based on) the criteria, in all material respects
- Revise item 51d(i) to state “the underlying subject matter and the responsible party's assertion being in in accordance with the criteria”. Also, delete items 51d(ii) and 51d(iii)
- Paragraphs 51d(iv-v): In describing the engaging party's responsibility with regard to the criteria, describe that responsibility as “selecting the criteria” and “determining that such criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement.”
- Delete the first bullet in paragraph A90 and A98.
- Delete item 64d which states, “the criteria are designed for a specific purpose.”
- In specified paragraphs, change to *subject matter* the term
 - *underlying subject matter* (paragraphs 3a, 3b, 4 definition of risk of material misstatement, A3b, 8f, A11, A13, 51d(i), 53a, 70a-b, A113, 73, 75, 76, and 80) and
 - the term *subject matter information* (paragraphs A13, 17, 72a-b, A115, A116, 73, 74, 77, and 81).

AT-C section 206

- Wherever applicable in the draft, describe the objective or responsibility of the practitioner in a direct examination engagement as “to obtain reasonable assurance by measuring or evaluating the underlying subject matter against the criteria and expressing an opinion in a written report that conveys the results of the practitioner's measurement or evaluation,” (Paragraphs 2, 4a, 4c, 12e(ii)(1-2), 12f(ii), A15b(2), A24, and the illustrative reports in par. .A37)
- In paragraph 12e(ii), in the list of items the practitioner is responsible for in a direct examination engagement, add “presenting any subject matter information as part of the practitioner's measurement or evaluation, when applicable.”
- Add an application paragraph linked to paragraph .01 indicating that AT-C section 206 is not applicable to examinations of subject matter for which the attestation standards contain a specific subject-matter section, for example, AT-C 315, *Compliance Attestation*
- Delete paragraph A5b and the last sentence of paragraph 5.
- Wherever the draft refers to the engaging party's responsibility with regard to the criteria, describe that responsibility as “selecting the criteria” and “determining that such criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement.” (Paragraphs 9d(ii)(1-2), 10b(ii-iii) 11b-c, A17)
- Make certain editorial changes

2. Risk Assessment

Mr. Harding led the ASB in a discussion of proposed SAS *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*. The objective of the agenda item was to vote to ballot the proposed SAS for exposure.

The ASB was supportive of the following matters:

- The relocation to application material of the definition of general information IT controls, information processing controls, and risks arising from the use of IT references to completeness, accuracy, and validity (which were shown as examples illustrating the concept of integrity of information in the definitions).
- The relocation of the extant requirement that addresses gaining an understanding of the process of reconciling detailed records to the general ledger for material account balances to application material for the information system and communication component of the entity's system of internal control.
- The inclusion of the guidance that addresses the use of walkthroughs, which was taken from the PCAOB AS 2110.
- The proposed conforming amendments to various AU-Cs.

Significant revisions made to the draft proposed standard prior to voting were as follows:

- Refinement to the application material to clarify the difference between the work effort related to gaining an understanding of the other components of internal control and performing procedures to evaluate the design of controls and determine whether they are implemented in the control activities component. The revisions better explain that 1) the auditor is not required to obtain an understanding of all controls, 2) controls include direct and indirect controls, and 3) in gaining an understanding of the indirect components of the entity's system of internal control, the auditor performs risk assessment procedures, beyond inquiry.

The ASB unanimously voted to ballot the proposed SAS for exposure for a period of 90 days.

3. Specialists/Investments

Ms. Bottomly, chair of the Specialist/Investments Task Force (Task Force), led the ASB in discussion of proposed revisions to various AU-C sections to address management specialists and consideration of convergence with recently issued PCAOB standards.

The ASB reviewed the agenda material and directed the Task Force to make certain specific changes. The proposed revisions will be brought to the ASB at its October meeting.

4. Quality Standards

Sara Lord, chair of the QM1 Task Force, and Jon Heath, chair of the QM2/220 Task Force, led a discussion of the IAASB project on its proposed quality management standards: International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), ISQM 2, *Engagement Quality Reviews* and International Standard on Auditing (ISA) 220 (Revised), *Quality for an Audit of Financial Statements*.

The ASB discussed issues related to ASB convergence with those standards. The consensus of the ASB was agreement with the Task Force recommendations to converge with the IAASB quality management standards on four specific requirements:

- Mandatory cooling-off period for engagement partners to serve as engagement quality reviewers. However, the ASB did not reach consensus on the length of the required cooling-off period, with many members expressing support for risk-based flexibility to support a period shorter than two years.
- Not dating the report before the engagement quality review (EQR) has been completed
- Inspection of engagements only by those not involved in the engagement
- Mandatory inspection of at least one completed engagement for each engagement partner on a cyclical basis as a monitoring procedure

A few ASB members raised the following concerns about the definition of engagement team used in the IAASB standards:

- The implications for determining whether component auditors are independent if the definition of engagement team is different in generally accepted auditing standards than it is in the Code of Professional Conduct and how the independence rules are expected to be applied to such engagement team members.
- Whether the definition of engagement team would impact the auditor's ability to make reference in a group audit.

Audit & Attest Standards team staff will discuss the first concern above with members of the AICPA Ethics team.

5. NOCLAR

Mr. Cohen led the ASB in discussing the project to revise AU-C section 210, *Terms of Engagement*, to require communication by a predecessor auditor to a successor auditor if the predecessor auditor withdraws from an engagement, decides not to stand for reappointment, or is terminated, and noncompliance with laws or regulation (NOCLAR) has been identified or is suspected.

Mr. Cohen stated that NASBA research, performed at the request of AICPA staff, indicated that all but three jurisdictions have provisions that would permit the communication of confidential client information between predecessor and successor auditors if required by GAAS. Whether the remaining three jurisdictions allow the communication is subject to an interpretation of their

laws and rules, which would require further research and evaluation. It was noted that the AICPA team responsible for liaising with state boards could be asked to reach out to those three jurisdictions, and request that they communicate to their members about the proposed new requirements and the laws and regulations in their jurisdiction.

A member of the ASB asked if the analysis behind the summary of the research presented could be obtained from NASBA and provided to the ASB.

Concerns raised by various members of the ASB included the following:

- Rather than revising the auditing standards, this issue may be better addressed by the PEEC through a revision to the Code of Professional Conduct. The ASB concluded that the proposed revision would improve audit quality and, therefore, it is in the public interest to revise the auditing standards.
- The proposed revisions may widen a perceived expectations gap and perhaps a better model would be to require transparency to the successor auditor with respect to the predecessor auditor's communications to those charged with governance.
- More guidance is needed with respect to determining who the predecessor auditor is as there may be situations in which an interim auditor accepted the engagement and was terminated prior to report issuance.

Mr. Cohen stated that the Task Force will consider the feedback provided by the ASB members and will plan to present a revised draft at the ASB's meeting in October 2020, with the intent of asking the ASB to vote to expose the proposed revisions for public comment.