



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

October 28-31, 2019

NY, NY

### MEETING ATTENDANCE

#### ASB Members

Mike Santay, *Chair*

Brad Ames

Monique Booker

Jay Brodish

Dora Burzenski (10/31 by phone)

Joseph Cascio

Harry Cohen

Jeanne Dee

Larry Gill

Audrey Gramling

Tracy Harding

Jon Heath

Jan Herringer

Kristen Kociolek

Sara Lord

Alan Long

Marcia Marien

Aaron Saito (10/31 by phone)

#### *Absent*

Gaylen Hansen

#### Guests

Denny Ard, *DHG LLP*

Dan Montgomery (10/31)

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

#### Observers

Peter Alfele, *CliftonLarsonAllenLLP*

Sally Ann Bailey, *Deloitte & Touche LLP*

Patricia Bottomly, *BDO*

Kathleen Healy, *PwC*

Kristy Illuzzi, *AICPA, CPEA (by phone)*

Susan Jones, *KPMG LLP*

Ilene Kassman, *KPMG LLP*

April King, *RSM US LLP*

Nick Kostoff, *Ernst & Young*

Carole McNees, *Plante Moran*

Steven Morrison, *J.H. Cohn (by phone)*

Cathy Rowe, *Wolters Kluwer*

Laura Schuetze, *Grant Thornton LLP (by phone)*

Tania Sergott, *Deloitte & Touche LLP*

Mark Wells, *Thomson Reuters/PPC*

## Chair's Report

Mr. Santay reported on recent meetings he attended on behalf of the AICPA, including meeting with the PCAOB, FASB, and GAO.

## IAASB Update

Mr. Dohrer provided an update on recent IAASB activities.

### 1. Attestation Standards

#### *AT-C 215*

The ASB considered the proposed revised AT-C section 215, *Agreed-Upon Procedures Engagements* and conforming amendments to AT-C section 105, *Concepts Common to All Attestation Engagements* for the purpose of voting to ballot to issue the proposed standard as a final standard.

Significant conclusions reached were as follows:

- Requirements should be added addressing
  - the inclusion of a statement in the practitioner's report, when applicable, that identification of the responsible party and its responsibility for the subject matter is based solely on representations received from the engaging party.
  - in determining whether to add an additional specified party subsequent to the issuance of the practitioner's report, such additional specified party's acknowledgement that the procedures performed are appropriate for their intended purpose.
- Application guidance should be added addressing
  - the practitioner's need, in certain circumstances, to obtain an understanding of the criteria or measurement framework that the responsible party used in developing the subject matter.
  - the fact that not all the specified parties to whom the report is restricted, if applicable, may have agreed to the procedures and acknowledged that the procedures performed are appropriate for their intended purpose.

- the inclusion of a description of the criteria or measurement framework used to develop the subject matter in identifying, in the practitioner's report, the subject matter to which the procedures have been applied.
- disclosure of confidential information with respect to potential communication of known or suspected fraud or noncompliance with laws or regulations, which requires the explicit consent of either the engaging party or the responsible party, as appropriate.
- The illustrative agreed-upon procedures reports should be revised for readability.
- The standard revising AT-C section 215 should be issued separately from the proposed revisions to AT-C sections 205, *Examination Engagements* and 210, *Review Engagements*, with an effective date for agreed-upon procedures reports dated on or after July 15, 2021. Early implementation will be permitted.
- The proposed revisions to AT-C section 105 should only include revisions that are necessary for the revised AT-C section 215, including application guidance that in some attestation engagements, the engaging party, the responsible party, and intended users may be the same.
- The ASB agreed to consider conforming changes to the AT-C section 300 series after the issuance of the proposed standard, which, if necessary, will be exposed for public comment.

The ASB voted unanimously, except for one abstention, to ballot to issue the proposed standard as a final standard.

### *AT-C 205/210*

Bob Dohrer, AICPA Chief Auditor, lead the Auditing Standards Board (ASB) in a discussion of certain concepts associated with the revision of AT-C sections 205, *Examination Engagements* and 210, *Review Engagements*, to ensure that the ASB has a consistent understanding of these concepts.

Significant points discussed were as follows:

- That AT-C sections 205 and 210 be retained to provide for traditional examination and review attestation engagements and that a new AT-C section be developed to provide for direct engagements (an attestation engagement in which the practitioner measures or evaluates the subject matter against the criteria and also reports on whether the subject matter is in accordance with the criteria). Alternatively, AT-C section 105 could also house the requirements and guidance for direct engagements.
- That the distinction between the terms *underlying subject matter* (USM) (the phenomenon that is being measured or evaluated against criteria) and *subject matter information* (SMI) (the outcome of the measurement or evaluation of the underlying

subject matter against the criteria) is dependent upon the facts and circumstances of each engagement and thus providing specific examples may not be useful.

- That an assertion from the responsible party (a statement about whether the subject matter is in accordance with the criteria based on a measurement against the criteria made by the responsible party) in an examination or review engagement is not evidence and whether to eliminate the need for the practitioner to obtain an assertion. An assertion would be SMI and the term “assertion” is not used in ISAE 3000 and the ASB should consider allowing the task force to eliminate that requirement.

## 2. Materiality

The ASB considered a proposed Statement on Auditing Standards (SAS) and proposed Statement on Standards for Attestation Engagements (SSAE), both titled *Amendments to the Description of the Concept of Materiality*. After discussion, which resulted in minor revisions to paragraph 4 of AU-C section 320 in the proposed SAS and the same revisions to the SSAE, the ASB voted unanimously to ballot to issue the proposed standards as final standards.

The FASB amended its definition of materiality in August 2018 to be consistent with the U.S. judicial system and other regulators and standard-setters in the U.S. The ASB believes it is in the public interest to eliminate inconsistencies between the AICPA *Professional Standards* and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. Because the revised definition is aligned with the FASB, the ASB believes it is substantially consistent with current U.S. firm practices with respect to determining and applying materiality in an audit or attest engagement and, accordingly, the amendments are neither expected nor intended to change U.S. practice.

## 3. Conforming Amendments

The ASB discussed proposed SAS *Amendments to AU-C Sections 725, 730, 930, 935, and 940*, which contains amendments to various AU-C sections that are primarily intended to align the reporting requirements in those sections with the relevant reporting requirements in SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. After the discussions described below, the ASB voted unanimously to ballot the proposed SAS for issuance as an exposure draft.

The ASB had no changes to proposed amendments to AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, or AU-C section 730, *Required Supplementary Information*.

### **AU-C section 930, *Interim Reviews***

Significant conclusions reached were as follows:

- Retain the reporting requirement for discussion of management’s responsibility for the interim financial information that is in extant AU-C section 930, even though this differs

from PCAOB AS 4105, but require that it be described in a separate section and not in the “Basis for Review Results” section of the report.

- Include application guidance that directs auditors to the appropriate paragraphs in AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, when substantial doubt exists but the applicable financial reporting framework does not include an explicit requirement to include a statement in the notes to the interim financial information that substantial doubt exists.

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

Significant conclusions reached were as follows:

- Revise the definition of material noncompliance to:

In the absence of a definition of material noncompliance in the governmental audit requirement, noncompliance with the applicable compliance requirements is considered to be quantitatively or qualitatively material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance.

- Require that the definition of significant deficiency always be included in the report on internal control over compliance

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

Significant conclusions reached were as follows:

- Regardless of whether additional information is included in management’s report or in a document containing management’s report, the auditor should be required to read the additional information to identify material inconsistencies with management’s report and to become aware of material misstatements of fact, and to respond appropriately.

#### **4. Risk Assessment**

The ASB discussed issues related to a proposed SAS, *Identifying and Assessing the Risks of Material Misstatements*, that would converge with proposed ISA 315, *Identifying and Assessing the Risks of Material Misstatements* (ISA 315), which the International Auditing and Assurance Standards (IAASB) voted as a final standard at its September 2019 meeting.

Significant conclusions reached were as follows:

- The ASB agreed with the views presented in the agenda materials, which support the significant changes in ISA 315, which are:

- new requirement to make separate assessments of inherent and control risk,
- the introduction of the spectrum of inherent risk,
- revised definition of significant risk,
- when tests of controls are not performed, the risk of material misstatement at the assertion level is the same as the assessment of inherent risk, and
- new requirement for the auditor to stand-back and reevaluate material classes of transaction, account balances, and disclosures that have not been assessed as significant.
- The ASB agreed to retain, without revision, application material related to gaining an understanding of internal control that describes the components of internal control, even though it is not aligned specifically with the COSO framework. The ASB requested that a document be created that compares this application material to the COSO framework.
- The ASB was supportive of the requirements in ISA 315 and requested that:
  - while drafting the proposed SAS, the task force address a concern expressed about the application material addressing information technology general controls (ITGC) and how they affect direct and indirect controls.
  - the requirement to assess and respond to risks of material misstatement be at the *relevant assertion level*, as in extant AU-C 315, and not at the *assertion level*, as in ISA 315.
  - The requirement in paragraph 18 of AU-C 330 be retained, including its applicability to *relevant* assertions. The ASB discussed whether this requirement is still needed in light of the proposed enhancements to AU-C 315, and concluded to retain it because deletion might be interpreted as ISA-minus.

The Task Force will present a draft proposed SAS at the ASB's January 2020 meeting.

## 5. Audit Evidence

The ASB discussed the significant comments arising from the comment letters received in response to the Exposure Draft related to the proposed SAS *Audit Evidence* (proposed SAS) and initial proposed direction by the Task Force based on such feedback.

The ASB discussed the matters addressed in the agenda material and generally supported the views recommended therein. Significant conclusions reached during the discussion are as follows:

- Remove the diagram depicting the attributes and factors that the auditor would be required to consider in making the evaluation whether information to be used as audit evidence is sufficient appropriate audit evidence; however, the diagram (with some revisions to address the comments by responders) could be used in an exhibit or other implementation material.
- Revert to the extant definitions of appropriateness and sufficiency but add application guidance emphasizing that “appropriateness” relates to the relevance and reliability of information to be used as audit evidence and that “sufficiency” means when “enough” appropriate evidence is obtained to be persuasive.

- Not pursue the proposed conforming amendments that would permit oral confirmations but consider adding application material addressing the use of electronic means to obtain external confirmations and to differentiate between “inquiry” and documenting oral responses to written confirmation requests.
- Relocate of the content addressing management’s specialists currently in AU-C section 500 to a different section.

The Task Force will present an updated proposed SAS at the ASB meetings scheduled for December 6, 2019 (conference call) and January 2020 with the aim of finalizing the proposed SAS as a final standard in May 2020.

#### **6. Group Audits**

Ms. Burzenski provided an update on the status of the IAASB project to revise ISA 600.

#### **7. Quality Control**

Ms. Lord provided an update on the status of the IAASB project on quality management.

#### **8. Strategy Paper**

The ASB discussed its consultation paper *Proposed Strategy and Work Plan*. The ASB discussed the process for addressing the responses and tracking the ASB’s progress against its strategy.