



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

December 6, 2019

Conference Call

### 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

Tracy Harding

Jon Heath

Jan Herringer

Kristen Kociolek

Sara Lord

Alan Long

Marcia Marien

Aaron Saito

#### 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*

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

#### *Absent*

Gaylen Hansen

### ***1. Audit Evidence***

The ASB discussed proposed changes in response to the comment letters to the introduction, definitions, objective, requirements, and certain application material of proposed Statement on Auditing Standards, *Audit Evidence* (proposed SAS). The ASB will further consider the proposed SAS at its next meeting in January 2020.

## **2. Conforming Amendments (800 Series)**

The ASB discussed three issues raised in comment letters on the August 28, 2019 exposure draft of the proposed SAS *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134*.

- In extant AU-C 800, the definition of *special purpose framework* (SPF) identifies the cash, tax, regulatory, contractual, and other bases of accounting as the five SPFs. In the ED, to conform with ISA 800 (Revised), these five frameworks were deleted from the definition of SPF and recast as examples of SPFs. The ASB concluded that the five SPFs should be reinstated in the definition of SPF because doing so enables requirements in the standard that are not applicable to all SPFs to be linked to specific SPFs.
- Some commenters objected to an additional statement, indicating that the financial statements may not be suitable for another purpose, being added to the auditor's report on financial statements prepared on an "other basis of accounting" because the AICPA Financial Reporting *Framework* for Small-and Medium-Sized Entities (*FRF for SMEs*) is an "other basis of accounting" and most financial statements prepared in accordance with FRF for SMEs are intended for general use. Rather, the ASB concluded that when the use of the auditor's report is restricted pursuant to AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*, an additional statement, indicating that the financial statements may not be suitable for another purpose, should be added to the auditor's report on financial statements prepared on a (1) contractual basis, (2) regulatory basis, or (3) other basis of accounting.

The ASB also recommended that the task force consider providing application guidance regarding the attributes of an other basis of accounting.

## **3. NOCLAR**

The ASB discussed possible revisions to generally accepted auditing standards (GAAS) with respect to communication requirements between predecessor and successor auditors when an audit relationship is terminated, either by the auditor or by the client, and the client's noncompliance with laws or regulations (NOCLAR) has been identified or is suspected.

The ASB agreed with the nature of the proposed revisions and that such changes would be in the public interest but cautioned that the Board needs to assess whether the proposed revisions may put the auditor at risk with respect to violating relevant state laws or regulations regarding client confidentiality. Further, while recognizing that it is the ASB's objective to issue standards that are in the public interest, the ASB discussed views related to the fact that the proposed revisions may result in an increase in litigation risk to auditors if not executed appropriately. The ASB noted that input from the offices of the general counsel at the various firms as well as the AICPA general counsel's office will be an important data point prior to finalizing any potential standard.

Certain ASB members also expressed concern that the Board may be operating in advance of potential changes in state board regulations or the AICPA Code of Professional Conduct. The Board will continue to look to PEEC and AICPA General Counsel for input on these matters.

With respect to the proposed revisions to GAAS, the ASB:

- Cautioned against using wording such as “concludes” with respect to NOCLAR as the auditor would not be able to make a legal determination.
- Directed that any potential revisions provide flexibility to allow an auditor to perform the audit in situations in which a client refuses to consent to the auditor communicating any instances of known or suspected fraud or NOCLAR to a successor auditor.
- Recognizing that paragraph 1.700.001.01 of the Code of Professional Conduct states that “a member in public practice shall not disclose any confidential client information without the specific *consent* of the client” (emphasis added), directed the Task Force to consider running the requirement to the client “acknowledging that it is aware that the auditor has a responsibility to communicate with a successor audit” as opposed to “consenting” to such a communication.

The ASB will consider a draft standard to revise GAAS at its meeting in January 2020 with the intent to vote to expose such proposed standard for public comment.