

AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

June 9, 2021

Videoconference

MEETING ATTENDANCE

ASB Members

Tracy Harding, *Chair*

Maxene Bardwell

Patricia Bottomly

Samantha Bowling

Sherry Chesser

Harry Cohen

Jeanne Dee

Horace Emery

Diane Hardesty

Robert Harris

Kathy Healy

Clay Huffman

Greg Jenkins

Maria Manasses

Andrew Prather

Chris Rogers

Tania Sergott

AICPA Staff

Jennifer Burns, *Chief Auditor*

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*

IASTF Members and Guests

Andrew Alemian, *PwC*

Dora Burzenski, *Deloitte*

Susan Jones, *KPMG*

Len Jui, *KPMG*

Diane Larsen, *EY*

Wendy Stevens, *Mazars*

Absent

Brad Ames (absent)

Jon Heath (absent)

1. Group Audits

The ASB discussed the agenda materials for the IAASB's June 2021 discussion of proposed (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. The following are some of the ASB's comments on the June 2021 draft of proposed ISA 600 (Revised):

- Paragraph A39-A39A discuss situations in which the fee quoted for an engagement is insufficient and may diminish the firm's ability to perform the engagement in accordance with professional standards and legal or regulatory requirements. Because threats to independence related to self-interest are addressed in the IESBA's International Code of Ethics for Professional Accountants and could be relevant to any audit, not just a group audit, the material related to fees should be deleted from proposed ISA 600 (Revised).
- The phrase in paragraph 21b "has otherwise been made available to the group engagement partner" is not all-encompassing of the ways in which the group engagement partner could become aware of the results of the monitoring and remediation process or

external inspections with respect to the component auditor's firm. The following is a suggested revision to the wording in paragraph 21b so that it encompasses all the ways in which such information could become known to the group engagement partner:

- When *the group engagement partner is aware of* information about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm ~~has been provided by the firm or has otherwise been made available to the group engagement partner~~, determine the relevance of such information to the group auditor's determination in paragraph 21(a)
- Subparagraph *b* of paragraph 22 indicates that if the group engagement partner has serious concerns about the matters in paragraphs 18–21, the group auditor is required to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. The term “serious concerns” implies a range of concerns, e.g., serious, less serious, and not serious. It is unclear how the group engagement partner could have a range of concerns if the component auditor refuses to confirm that he or she will cooperate with the group auditor, including performing the work requested by the group auditor. If the component auditor doesn't confirm, it would be expected that the group auditor would not involve the component auditor.
- For many of the examples in paragraph 9a, it is difficult to determine why the circumstance described represents a challenge to the exercise of professional skepticism in a group audit. For example, it is not clear how the fact that component auditors may be subject to varying cultural influences that affect the nature of the biases to which they are subject relates to professional skepticism. The IAASB may wish to reconsider what this list of items is intended to represent because many of the items do not appear to be examples of situations that would challenge the exercise of professional skepticism.
- Paragraph A29 discusses the ways in which the group auditor may be able to overcome restrictions on access to information or people, including when the component is an investment accounted for by the equity method. Paragraph A29A describes possible procedures to obtain sufficient appropriate audit evidence in this situation. The ISA doesn't really acknowledge that it may be unnecessary to “pierce through to the group audit” to obtain evidence about the component. It may be sufficient to obtain the audited financial statements of the investee and do some work on that. In addition, the draft needs to explain how the group auditor could comply with all the ISA 600 requirements for an equity method investment, if that is the IAASB's intention.
- The second sentence in paragraph A72D states, “The group auditor assesses the inherent risk by assessing the likelihood and magnitude of identified risks of material misstatement, taking into account the inherent risk factors.” This sentence is inconsistent with the requirement in paragraph 26B of the proposed ISA which states, “In applying ISA 315 (Revised 2019), based on the understanding obtained in paragraph 24, the group auditor shall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements”

- The third sentence of paragraph A72D states “After identifying the risks of material misstatement, including those communicated by component auditors, the group auditor determines the relevant assertions and related significant classes of transactions, account balances and disclosures of the group financial statements.” This statement is inconsistent with ISA 315 which does not specify the order in which these activities occur.

2. Audits of Less Complex Entities (LCE)

The ASB discussed the agenda materials for the IAASB’s June 2021 discussion of proposed ISA for Audits of Financial Statements of Less Complex Entities. The ASB agreed that for purposes of exposure of the proposed SAS, the Explanatory Memorandum was of higher priority than the wording of the proposed SAS itself, and identified the following issues as important for the Explanatory Memo to address:

Significant comments and observations were as follows:

Reasonable assurance

- The ASB expressed concern that the same level of assurance is proposed to be obtained in an audit performed in accordance with the proposed standard as that obtained in an audit in accordance with the full ISAs. The proposed standard omits procedures that are required in an audit performed in accordance with the full ISAs.
- The ASB believes that this is a potential fatal flaw in the proposed standard and requested that Ms. Stevens express to the IAASB that the explanatory memorandum that will be included in the exposure draft of the proposed standard include a summary as to how the IAASB believes that *reasonable assurance* is obtained in an audit performed in accordance with the proposed standard and ask respondents for their views.
- The IAASB Task Force’s mapping documents illustrate which ISA requirements are not included in the proposed standard. While such documents should be available for consideration by respondents, the ASB requested that Ms. Stevens express to the IAASB a need for a summary of the major differences between an audit in accordance with the full ISAs vs. the proposed standard to be included in the explanatory memorandum of the exposure draft.

Omission of group audits from the proposed standard

- The ASB requested that Ms. Stevens request that the explanatory memorandum clearly state whether a component audit could be performed in accordance with the proposed standard.

Proposed “stable platform”

- The ASB requested that Ms. Stevens express to the IAASB the need to discuss the proposed “stable platform” in the explanatory memorandum. Respondents should be requested to comment as to whether they believe that consideration should be given to revising the

standard at the same time an ISA is being revised. The request for comment should not bias respondents with respect to concern with “standards overload.”

Reporting

- If the intent is that the same level of assurance is obtained in an audit in accordance with the proposed standard as in an audit in accordance with the full ISAs, certain ASB members believe that the proposed report should mirror the report issued in accordance with the full ISAs.
- If the intent is that a different level of assurance is obtained from that which would have been obtained had the audit been performed in accordance with the full ISAs, the ASB stated that the report should disclose the procedures omitted and the evidence not obtained.
- The proposed standard is “light” with respect to certain reporting elements such as an audit on financial statements prepared in accordance with a special purpose framework. If the intent is that the proposed standard is to “stand-alone,” such requirements should be included.

Ms. Stevens also asked that the ASB members e-mail her their individual thoughts as to whether the applicability and authority of the proposed standard is clear.

The ASB stated that it will discuss its preliminary intentions with respect to the development of a SAS addressing audits of LCEs SAS at its July 2021 meeting.