



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

July 20-22, 2021

Videoconference

MEETING ATTENDANCE

ASB Members

Tracy Harding, *Chair*

Brad Ames

Maxene Bardwell

Patricia Bottomly

Samantha Bowling

Sherry Chesser

Harry Cohen

Jeanne Dee

Horace Emery

Diane Hardesty

Robert Harris

Kathy Healy

Jon Heath

Clay Huffman (absent 7/20)

Greg Jenkins

Maria Manasses

Andrew Prather

Chris Rogers (absent 7/20)

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*

Guests

Dora Burzenski, *Deloitte*

Elizabeth Martinez, *GAO*

Wendy Stevens, *Mazars*

Chair's Update

Mr. Harding presented an update of recent Chair and Chief Auditor activity.

1. IAASB Update

Ms. Stevens, AICPA representative on the IAASB, presented an update on recent IAASB activity. She noted that based on her experience on the IAASB so far, she no longer advocates for the IAASB to issue non-authoritative guidance, because of the extensive resources needed and confusion created about their status.

2. Risk Assessment

Ms. Manasses, chair of the Risk Assessment Task Force (Task Force), led the ASB in a discussion of proposed Statement on Auditing Standards (SAS) *Identifying and Assessing the*

Risks of Material Misstatement Through Understanding the Entity and its Environment (Proposed SAS), which had been revised to take into consideration the issues identified in the comment letters received in response to the Exposure Draft as directed by the ASB in previous meetings.

The ASB made the following revisions during the discussion:

- Amended paragraph 27b by deleting the phrase “including controls including controls over nonstandard journal entries used to record nonrecurring, unusual transactions” that had been added in previous discussions.
- Amended paragraph A105 (renumbered as A104) by replacing the following sentence
“...Inquiry alone may not be sufficient to obtain the required understanding of these components and to perform the evaluation required by paragraphs 21b, 22b, 24c, and 25c...”
with
“The auditor exercises professional judgment to determine the nature and extent of the procedures to be performed to meet the requirements (see paragraph A22, A108, and A109).”
- Amended paragraph A167 to clarify that there might be direct and indirect controls within the information and communication component, including clarifying the linkage of information-processing controls with control activities.
- Added application material explaining the term “relevant assertion level”. Extant AU-C section 315 requires the auditor to assess the risks of material misstatement at the **relevant** assertion level. However, the proposed SAS, consistent with ISA 315 (Revised 2019), requires the auditor to assess the risks of material misstatements at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures. In this regard, inherent risk and control risk are assessed for relevant assertions. The term “relevant assertion level” has been used in GAAS since SAS Nos. 104 – 111 were issued by the ASB in 2006. SAS No. 143, *Auditing Accounting Estimates*, uses the term in alignment with extant AU-C section 315. This term is also prevalent within the AICPA Audit and Accounting Guides. The ASB decided to retain the term for various reasons, including to avoid potential confusion and unnecessary cost of revision and included the following application material in the proposed SAS to explain the use of the term “relevant assertion level” in GAAS:

“Assessed risks of material misstatement for the relevant assertions and the related significant classes of transactions, account balances, and disclosures are also referred to as “risks of material misstatement at the relevant assertion level.”

A final draft of the proposed SAS will be brought to the ASB at its next meeting, August 18, 2021 with the intent for the Board to vote the proposed SAS as a final standard.

3. Audits of LCEs

Mr. Emery, chair of the Audits of LCEs Task Force (Task Force), and Mr. Glynn led the ASB in a discussion of issues associated with the IAASB's project to develop an audit standard for less complex entities and with the development of the ASB's comment letter on the IAASB's exposure draft. Significant comments and observations were as follows:

ASB thoughts on potential SAS for LCEs

An ASB member expressed concern that if ASB develops a "SAS for LCEs", there would be three separate sets of standards in the US (GAAS and PCAOB standards being the others), all of which purport to result in an engagement in which the auditor has obtained reasonable assurance, but all of which have different requirements with respect to evidence that the auditor is required to obtain.

In response, the following was noted:

- A primary objective of the IAASB in developing the proposed ISA for LCEs was to address how audit standards can be scaled for an audit of an LCE. If the ASB believes that there is a scalability issue in the United States, perhaps the issue can be addressed via an authoritative guide that illustrates how the SASs can be scaled for audits of LCEs.
- The proposed risk assessment standard includes some guidance on how an auditor can scale the standard and the proposed Risk Assessment Audit Guide will focus on audits of LCEs.
- The IAASB is also attempting to address audit quality by aligning standards proposed by different national standards setters. The ASB will need to keep that in mind as it develops its comment letter on the proposed standard and will need to focus on potential users of the auditor's report.

The ASB, recognizing that scalability is a significant issue for many auditors of LCEs, concluded that it would remain open-minded with respect to a potential standard for LCEs while acknowledging that there may be other methods in the United States for providing guidance regarding scalability.

Assurance Obtained

A few ASB members expressed doubt that the proposed standard would result as intended in the auditor having obtained reasonable assurance, as well as concern about situations where the client meets the definition of an LCE in one year but not the subsequent year.

Mr. Glynn noted that, to help evaluate this concern, the IAASB was strongly urged by the American IAASB representatives, as well as those from several other jurisdictions, to include a high-level summary that illustrates how the ISA requirements map to the proposed ISA for LCEs and highlights any omitted procedures as well as procedures in which the wording has been revised, along with reasons why the standard still results in reasonable assurance despite the omissions or revisions.

Authority/Exclusion of Group Audits and ISA 800 series

The Task Force is concerned about the exclusion of group audits from the proposed ISA for LCEs. Ms. Sergott stated that the IAASB was concerned about diversity in practice if group audits were permitted to be performed in accordance with the proposed standard and that input on this issue is being sought via the comment letter process.

An ASB member stated that the implications on the group audit if the audit of a component was performed in accordance with the proposed standard need to be addressed, perhaps in ISA 600.

The Task Force is also concerned that the exclusion of requirements and guidance from the ISA 800 series will be a significant impediment to implementation of the proposed ISA.

Plan for development of the ASB's comment letter on the proposed ISA for LCEs

The Task Force plans to perform a thorough analysis of the IAASB's mapping documents. The Task Force plans to prepare a listing of omitted procedures and procedures that are worded differently than those in the ISAs and conclude as to whether the omission or different wording results in reasonable assurance being obtained or constitutes an inappropriate negative impact on audit quality.

Further, the Task Force plans to continue discussions with representatives of both the Canadian Audit and Assurance Standards Board and the Institute of Chartered Accountants in England and Wales and potentially other standard setting bodies. In addition, the Task Force will engage both the ARSC and the TIC as it considers how the proposed standard may impact smaller firm practitioners. The Task Force will also develop and issue a survey intended to obtain feedback from selected stakeholders whose input would be particularly relevant to the perspective of auditors of LCEs.

The Task Force plans to present issues to the ASB at its meetings in September and October 2021 with a final draft of the comment letter in January 2022.

4. Group Audits

Dora Burzenski, Chair of the Group Audits Task Force and a member of the IAASB's ISA 600 Task Force, provided an update on the results of the IAASB's discussion of the draft of ISA 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, (ED) presented at the June 2021 IAASB meeting.

During its July meeting, the ASB addressed the following matters:

- Extant AU-C 600 permits the auditor to make reference to, or assume responsibility for, the work of a component auditor. The ED, like extant ISA 600, does not provide an option for the auditor to make reference to the work of a component auditor because this is not permitted under the ISAs. The ASB agreed

- to retain the option of making reference to the work of a component auditor in proposed AU-C 600.
- that the requirement paragraphs on making reference (paragraphs 24-31) and related application material in extant AU-C 600 do not require revision other than conforming changes.
- In addition to adding the paragraphs on making reference to the draft of ISA 600 (Revised), and clarifying when a requirement is applicable to assuming responsibility or making reference, the only other changes that will be made to the draft of ISA 600 (Revised) are the following:
 - Changes to reflect differences that currently exist between extant AU-C 600 and extant ISA 600, unrelated to making reference
 - If needed, changes to the requirements to reflect the uniqueness of the US environment
 - If needed, the addition or deletion of application material to reflect the uniqueness of the US environment
 - Changes to reflect ASB drafting conventions, e.g., replacing *shall* with *should*.

To enable the ASB to issue an exposure draft of proposed AU-C 600 in the first quarter of 2022, the task force will develop a draft of proposed AU-C 600 by marking the draft of ISA 600 (Revised) that was discussed at the September 2021 IAASB meeting to include

- the “making reference” paragraphs from extant AU-C 600,
- any needed conforming changes to those paragraphs,
- changes to reflect current differences between extant AU-C 600 and extant ISA 600, unrelated to making reference, and
- any additional changes agreed-upon by the IAASB during its September 2021 meeting.

The task force will present this draft at the October 2021 ASB meeting. The task force will then update this draft to incorporate any changes directed by the ASB and any additional changes agreed-upon by the IAASB at its December 2021 meeting. The task force will present that draft at the January 2022 ASB meeting.

The ASB expects to vote to issue an exposure draft of proposed AU-C 600 at its March 2022 meeting.

5. Executive session: Strategic Planning

The ASB discussed the following

- Proposed changes to ASB Operating Policies
- Draft “Rules of Order” for ASB Meeting Discussions
- Convergence Background Information and Guidelines

Proposed Changes to ASB Operating Policies

No objections to the revised text were raised. Significant comments and observations during the discussion included:

- Add criteria for evaluation of the chair
- Add evaluation, and related criteria, for evaluation of resources and staff support
- AITF:
 - Clarify what is meant by negative clearance.
 - Continue to allow other ASB members to observe with right of the floor.
 - Consider how the AITF meetings are different than ASB meetings (and whether the AITF meetings should focus on practice issues; if so, explicitly ask for practice issues in advance of each meeting.
 - Reconsider the frequency and timing of the AITF meetings
 - Clarify expectations when documents are sent for review
- Convergence – how can the ASB accelerate how quickly we converge with IAASB standards? Ms. Burns noted that changes to the IASTF meeting by overlapping them with ASB meetings will help with this. The most recent IAASB project is Audits of LCEs, which the ASB has determined requires research before considering how, or whether, to converge.

Discussion of ASB Meeting Rules of Order

- Clarify that guidance replacing application material can be authoritative or nonauthoritative
- Consider adding that ASB members should err on the side of caution in raising comments when unsure whether a comment is “editorial” or more substantive in nature
- Revise guidance about turn-around documents to provide adequate time to read and consider the documents before the vote, including, if necessary, reading time during the meeting before the vote.
- Add a consideration about whether any application material should be added.

Proposed Converge Guidelines

- Delete guideline that requirements are never deleted, and add guidelines on when they can be deleted.
- Delete discussion of requirements in AU-C sections with no equivalent in the ISAs and add consideration of existing differences described in Appendix B to GAAS.
- Clarify that Appendix B only addresses requirements, and that the matrix need not include the application material or exhibits.

The ASB also discussed the need for the following actions regarding convergence:

- Consider what changes the ASB would make to an IAASB draft at each stage of development
- Recommend IAASB make decisions on drafting standards and not revisit them in subsequent meetings
- Advise the IAASB when proposed changes exceed the scope stated in the project plan for a project
- Facilitate input into PCAOB (work with the CAQ)

- Develop and maintain comparisons between the IAASB standards and the ASB standards at each stage of development, with explanations for differences, and between the new ISA/SAS and the old ISA/AU-C section