



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

September 9, 2021

Videoconference

MEETING ATTENDANCE

ASB Members

Tracy Harding, *Chair*

Brad Ames

Maxene Bardwell

Patricia Bottomly

Samantha Bowling

Sherry Chesser

Harry Cohen

Jeanne Dee (Absent)

Horace Emery

Diane Hardesty

Robert Harris

Kathy Healy

Jon Heath (Absent)

Clay Huffman

Greg Jenkins

Maria Manasses

Andrew Prather

Chris Rogers (absent)

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*

Judith Sherinsky, *Senior Technical Manager—A&A Standards*

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

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

Guests

Dora Burzenski, *Deloitte*

Susan Jones, *KPMG*

Diane Larsen, *EY*

Wendy Stevens, *Mazars*

1. NOCLAR

Mr. Cohen, chair of the NOCLAR Task Force, presented the agenda material. The ASB's objective was to consider the 24 comment letters received on the exposure draft of the proposed SAS, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations* and review changes suggested by the Task Force to the proposed revisions to AU-C section 210, *Terms of Engagement* and provide feedback to the Task Force.

Client Authorization to contact predecessor auditor

The exposure draft specifically asked respondents whether they agreed with the ASB's determination that it is appropriate to retain the requirement for the auditor, prior to accepting an initial audit, including a reaudit engagement, to request management to authorize the predecessor auditor to respond fully to the auditor's inquiries.

- 23 of the 24 respondents were supportive of the retention of the requirement.
- NASBA, in their comment letter, expressed that it is their firm belief that it is in the public interest to allow the predecessor auditor to freely discuss matters involving NOCLAR with the successor auditor.

- One of the members of the NOCLAR Task Force believes that the ASB should withdraw the proposed standard and instead, rely on PEEC to make changes to the Code with respect to communication of confidential client information.
- Another NOCLAR Task Force member stated that he believes that the predecessor auditor should be required to communicate matters involving NOCLAR to the successor auditor absent management consent.
- One ASB member stated that he does not believe that the concept that a successor auditor would consider a “red flag” when management does not authorize the predecessor auditor to respond to the successor auditor’s inquiries would be sufficient in practice.
- The ASB discussed whether it is common practice for successor auditors to make inquiries of the predecessor auditor.
 - One ASB member stated that it is her experience that her firm is often not contacted by successor auditors – indicating that either the successor did not comply with the requirement to request management to authorize the predecessor to respond to the successor’s inquiries or management did not authorize and the successor accepted the engagement anyway.
 - During the meeting, Mr. Glynn exchanged e-mail messages with the AICPA’s Peer Review staff and was advised that, while they do not believe it to be a significant practice issue, larger firms often report that they were not contacted by a successor auditor when such successor auditor is a smaller firm.
- After discussion, the Board directed that the client authorization construct be retained.

Paragraph A37

Paragraph .A37 was added to the proposed standard to address a concern expressed by the U.S. Government Accountability Office (GAO). The ASB directed that the proposed paragraph be revised as follows:

Considerations Specific to Governmental Entities

- .A37 In accordance with generally accepted governmental auditing standards, if the law or regulation requiring an audit specifically identifies the entities to be audited, in addition to management, the auditor would obtain authorization from those individuals contracting for or requesting the audit and from those legislative committees, if any that have ongoing oversight responsibilities for the audited entity.***

Mr. Glynn will provide the proposed language to the GAO and ask whether such an application paragraph would address their concerns.

Paragraph .13

- Several ASB members stated that they have a concern with including specific requirements for predecessor auditors in US GAAS.
- Ms. March stated that reference to “potential litigation” in the proposed standard is appropriate, in response to suggestions that the wording be revised to refer to “possible litigation” or “probable litigation.”
- The final sentence was revised to include the word “unusual” so as to be clear that the referenced “circumstances [that] are expected to be rare” are the “unusual circumstances” referenced in the preceding sentence.
- The ASB directed that the statement that “the AICPA Code of Professional Conduct states that members have a responsibility to cooperate with each other” be moved from application material to this paragraph, as essential guidance.

The Task Force anticipates presenting a draft of the proposed standard to the Board at its meeting in October 2021. That draft will be considered “close to final.” The vote to issue as a final standard will be held

after the Professional Ethics Executive Committee (PEEC) finalizes proposed revisions to the Code of Professional Conduct regarding responding to NOCLAR. The PEEC currently anticipates finalizing the proposed Code revisions at its meeting in February 2022. The final SAS would be issued in conjunction with final revisions to the Code of Professional Conduct as approved by the PEEC.

2. Group Audits

Dora Burzenski, Chair of the Group Audits Task Force, and correspondent member of the IAASB ISA 600 Task Force, led the ASB in a discussion of the IAASB's September 2021 draft of proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED).

The ASB had the following comments on the draft:

- Paragraph A29A addresses how to obtain sufficient and appropriate audit evidence for a non-controlling interest (equity method investment) component when access is restricted. The lead-in to paragraph A29A indicates that by considering the bulleted sources of information, the group auditor may determine that sufficient appropriate audit evidence can be obtained. It does not tell the group auditor how such evidence may be obtained, although that is what paragraph A29 says paragraph A29A describes. If the bullets in paragraph A29A are meant to be a list of possible sources of information from which the auditor may be able to obtain sufficient appropriate audit evidence, the lead-in should be revised as shown below:

A29A. When the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access is restricted, the group auditor may be able to determine that obtain sufficient appropriate audit evidence from the following can be obtained by considering:

- Paragraph A29B indicates that it is a matter of professional judgment whether one, or a combination, of the options included in paragraphs A29 or A29A can overcome the restrictions [to access] to enable the group auditor to obtain sufficient appropriate audit evidence. The revisions to paragraphs A29 and A29B do not resolve the questions group auditors may have about what constitutes sufficient appropriate audit evidence for a component that is an equity method investment. Also, the addition of paragraph A29B creates further uncertainty about whether the sources of information in paragraph A29A may be able to provide sufficient appropriate audit evidence. The IAASB should determine what is considered sufficient appropriate audit evidence for an equity method investment component in other auditing standards. For example, AU-C 600.A23 and PCAOB AS 1105.B1 provide that audited financial statements of an equity method investment may constitute sufficient appropriate audit evidence.
- The sources of information in paragraph A29A may provide sufficient appropriate evidence regardless of whether the group auditor's access is restricted. The guidance on what constitutes sufficient appropriate audit evidence for an equity method investment would be better placed near paragraph A114, which is application material linked to paragraph 49 on evaluating the sufficiency and appropriateness of audit evidence obtained, rather than being placed in paragraph A29A which is application material related to restricted access.
- Paragraph A15 indicates that the term *component management* refers to management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component. In some group audits, a component may not have its own separate management and may instead be managed by group management. It would be helpful to clarify that component management may be the same as group management. To make that clarification the following sentence should be added at the end of paragraph A15

In some group audits, a component may not have its own component management and may instead be managed by group management.

- Paragraph A44A indicates that when using the work of an auditor's expert, ISA 620 requires the auditor to evaluate whether the auditor's expert has the necessary competence, capabilities, and objectivity for the auditor's purposes. It further states that in a group audit these evaluations include auditor's experts engaged by component auditors. The paragraph is unclear regarding who needs to do the evaluation of an auditor's expert that is engaged by a component auditor—the group auditor or the component auditor. The paragraph should be clarified to reflect the IAASB's intentions.
- Paragraphs 42, A103, A104 and A105 of the June 2021 draft of proposed ISA 600 (Revised) address using audit evidence from an audit performed for another purpose. These paragraphs have been deleted from the September 2021 draft. Although paragraph A8AA acknowledges that work performed in an audit of the financial statements of a component may be used for the purposes of the group audit, the deletion of the requirements and guidance on this topic does not resolve questions auditors may have about whether and how work from a completed audit of a component can be used in a group audit. To clarify this, the following should be added in or after paragraph A8AA:

When an audit performed for another purpose has been completed and an auditor's report has been issued, the auditor may use audit evidence from that audit if the group auditor is satisfied that the work is appropriate for the group auditor's purposes. In those circumstances, the requirements of this standard must still be met. The auditor may adapt or supplement the completed work, as necessary (considering, for example, professional competence of the auditor, performance materiality applied by the auditor, and review of the auditor's workpapers).

- In the September draft, the following change was made to paragraph 22a:
The group auditor shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor if:
(a) The component auditor does not comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence ~~A component auditor is not independent in accordance with ethical requirements that are relevant to the group audit;~~ or (Ref: Para. A46A–A47)

Although the component auditor is responsible for complying with relevant ethical requirements, there could be noncompliance with certain ethical requirements that would not preclude use of the component auditor's work. Expanding this requirement to imply that any such breach would prevent the group auditor from using the work of the component auditor is a significant change from the requirement in the June 2021 draft. The revised requirement is too broad and would be impractical. For example, if the component auditor is from a firm that is not part of the group auditor's network, the group auditor would not have knowledge about that firm's relevant ethical requirements. This change was not exposed for comment and also goes beyond the requirements of ISA 220 (Revised). In addition, the revised requirement would have more significant consequences in a group audit. The wording in the June 2021 draft of subparagraph 22a should be reinstated.

- Paragraph 17A requires the group auditor to establish an overall group audit strategy and group audit plan that includes a determination of the resources needed to perform the group audit

engagement, including the nature, timing and extent to which component auditors are to be involved. This requirement creates audit expectations that are unrealistic and almost impossible to meet, for example, the challenges of determining specific component auditor resources when the component auditor may be from a nonnetwork firm. Paragraph 17A(b) should be revised as shown below:

(b) ~~The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved.~~ (Ref: Para. A33G–A33J)

- In determining whether, and the extent to which, it is necessary for the group auditor to review parts of the component auditor’s audit documentation, paragraph 45A requires the group auditor to consider
 - (a) ...
 - (b) The determination of the competence and capabilities of the component auditor in accordance with paragraph 21(a); and
 - (c) The direction, supervision, and review of the component auditor, including communications from the component auditor.

Paragraph 21(a) requires the group engagement partner to determine the appropriate competence and capabilities of the component auditor. Therefore, the use of “determination of” in subparagraph b is not necessary because the group engagement partner has already made that determination. For that reason, subparagraph b should be revised as shown below:

(b) ~~The determination of the~~ competence and capabilities of the component auditor determined in accordance with paragraph 21(a); and

Subparagraph c refers to “review of the component auditor” when what is meant is review of “the work of the component auditor.” For that reason, subparagraph c should be revised as shown below:

(c) The direction and supervision ~~and review~~ of the component auditor and the review of their work, including considering communications from the component auditor. (Ref: Para. A112C– A113)

- Paragraph A9A identifies matters that may affect the engagement team’s exercise of professional skepticism. The fourth bullet in that paragraph is the following:

When the group audit is subject to tight reporting deadlines imposed by group management, this may put pressure on engagement team members in completing the work assigned. For example, such demands may restrict the ability of the engagement team to make appropriate judgments, including in the review of the work performed, and appropriately question management’s assertions

This bullet gives the group auditor the impression that this is a matter that cannot be overcome when exercising professional skepticism. Tight reporting deadlines imposed by group management may put pressure on engagement team members in completing the work assigned, but they do not preclude their exercise of professional skepticism. Professional skepticism is maintained throughout the audit and heightened in certain circumstances, rather than being turned off and on. For that reason, the bullet should be revised as shown below:

When the group audit is subject to tight reporting deadlines imposed by group management, this may put pressure on engagement team members in completing the work assigned. ~~For~~

~~example, such demands may restrict the ability of the engagement team to~~ when making appropriate judgments, including ~~in the~~ when reviewing of the work performed, and appropriately questioning management's assertions.

- Paragraph A9A identifies matters that may affect the engagement team's exercise of professional skepticism and paragraph A115 identifies inappropriate actions the group engagement team may take as a result of those matters. The following is the first bullet in paragraph A115.
Obtain audit evidence that is easier to access rather than obtain evidence that is more relevant and reliable:
This bullet should be deleted because it assumes that audit evidence that is easier to access will be less relevant and reliable, which is not necessarily the case. Audit evidence that is relevant and reliable may be easy to access or more difficult to access.

At the October 2021 ASB meeting, the Group Audits Task Force will present a draft of proposed AU-C-600, based on the September 2021 draft of proposed ISA 600 (Revised). The primary difference between the two proposed standards will be that proposed AU-C 600, like extant AU-C 600, will include an option for the group engagement partner to make reference to the work of a component auditor (which is not allowed under the ISAs) and will also clarify when a requirement is applicable only to assuming responsibility or only to making reference.

3. Audits of LCEs

Mr. Emery, chair of the Audits of LCEs Task Force (Task Force), provided the ASB with an update of the Audits of LCEs Task Force's activities since the July 2021 ASB meeting.

On July 23, 2021, the IAASB issued its exposure draft of the proposed standalone ISA for LCEs. The comment period ends on January 31, 2022. The IAASB ISA for LCEs Task Force is currently updating the mapping documents that it prepared to illustrate how requirements from the ISAs map to the proposed standard. Those mapping documents are expected to be made available by the end of August 2021. In its initial review of the exposure draft, the ASB's Audits of LCEs Task Force's concerns regarding assurance obtained, the standalone nature of the standard, and the exclusion of group audits and requirements/guidance from the ISA 800 series remain.

The ASB Audits of LCEs Task Force's plan to develop a comment letter on the proposed ISA for LCEs includes a three-pronged approach for obtaining necessary information and feedback:

- 1) Perform a thorough review of the IAASB mapping documents. 18 reviewers have been identified – the 8 members of the Task Force; the 5 ARSC members that are not on the Task Force; 1 TIC representative; 3 additional ASB volunteers; and 1 Audit & Attest Standards Team staff. This working group's work will commence as soon as the IAASB mapping documents are made available.
- 2) Preparation and issuance of a targeted survey. The survey is under development by Mr. Jenkins and 2 of his colleagues at Auburn University. It is expected that the survey will be issued in mid-October 2021 with a 2-week response period.
- 3) Continued discussions with other jurisdictions and sharing of information.

The first draft of the comment letter is expected to be presented to the ASB's Audits of LCEs Task Force in mid-November 2021.

The ASB's Audits of LCEs Task Force will provide additional updates to the ASB at the ASB's meetings in October and December 2021. As part of the December 2021 update, the Task Force anticipates presenting a bullet-point list of items to be considered for inclusion in the comment letter. The Task Force plans to submit the draft comment letter to the ASB in early January 2022 and that draft letter will be discussed by the ASB at its meeting in January 2022 with submission of a final letter to the IAASB by January 31, 2022.