



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

October 12-14, 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

Greg Jenkins

Maria Manasses

Andrew Prather

Chris Rogers (absent)

Tania Sergott

##### AICPA Staff

Jennifer Burns, *Chief Auditor*

Sue Coffey, *CEO—Public Accounting (10/12 only)*

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 Mrakovcic, *Technical Manager— A&A Standards*

Wallace Tu, *Intern— A&A Standards*

##### Guests

Beth Anguish, *BDO*

Dora Burzenski, *Deloitte*

Laura Schuetze, *GT*

Wendy Stevens, *Mazars*

#### 1. Chair's Update

Mr. Harding provided an update to the ASB on his recent activities related to the ASB and other matters of interest.

#### 2. IAASB Update

Ms. Stevens provided an update on the current projects of the IAASB.

#### 3. NOCLAR

The ASB discussed a draft of proposed SAS *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations* and directed that certain editorial changes be made. The ASB will be asked to vote to issue the proposed SAS at a meeting after the Professional Ethics Executive Committee (PEEC) votes to approve proposed revisions to the Code of Professional Conduct regarding responding to noncompliance with laws and regulations (NOCLAR). The PEEC currently anticipates finalizing the proposed Code revisions at its meeting in February 2022. A final SAS, if approved, would be issued in conjunction with final revisions to the Code of Professional Conduct.

#### 4. Quality Management

The ASB discussed comment letters and other feedback on its exposure draft, *Proposed Quality Management Standards*, which includes three interrelated proposed standards:

- Proposed Statement on Quality Management Standards (SQMS) *A Firm's System of Quality Management*
- Proposed SQMS *Engagement Quality Reviews*
- Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

The development of these proposed standards had been influenced by concerns about audit quality, as indicated by the results of peer reviews and studies by regulators. 171 comment letters were received on the exposure draft of the proposed standards.<sup>1</sup> While the comments received on the exposure draft addressed all aspects of the standards, significant concerns focused on the proposals related to the proposed prohibition on self-inspection and the proposed two-year cooling-off period for engagement quality reviewers (EQRs).

The ASB considered the objective of the proposed standards, which is to enhance audit quality for the benefit of the public interest, and considered the feedback about the associated benefits and costs of specific requirements. From that perspective, the ASB directed the following changes to the proposed standards:

- Permit self-inspection. The ASB believes that a prescriptive preclusion is inconsistent with a risk-based approach and the cost of unintentional negative consequences of the prohibition seems to exceed the benefits.
- Do not require a cooling-off period for EQRs. The ASB believes it would be inconsistent in the US to require EQR rotation but not engagement partner rotation.
- Retain the extant requirement that the EQR has to be completed before the report is released, and not before the report is dated. The ASB believes that the flexibility of using the report release date provides greater benefit than the logistical cost of restricting the time available for completing the EQR.

The ASB also directed the inclusion of principles-based guidance about the quality risks associated with self-inspection and lack of EQR rotation and how the auditor might develop responses to them.

The ASB discussed the effective date of the proposed standards. The ASB was generally supportive of an effective date that is tied to a firm's peer-review year-end date but found the description of how to implement that confusing. The ASB directed the Task Force to consult with the Peer Review team on how to simplify this option.

#### 5. Group Audits

The ASB discussed a draft of a proposed SAS AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* ("proposed Group Audit SAS"), that was based on the IAASB's September 2021 draft of proposed ISA 600 (Revised) with the same title. The draft reviewed by the ASB had been marked primarily to show proposed changes that would permit the group auditor to make reference to the work of a component auditor, which is an option in extant AU-C 600 but is not allowed under the ISAs. In addition, language had been added to relevant paragraphs of the draft to indicate when a requirement is applicable only to assuming responsibility or only to making reference.

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<sup>1</sup> The comment letters on the proposed Quality Management standards are available at <https://www.aicpa.org/research/exposedrafts/accountingandauditing/comment-letters-on-proposed-quality-management-standards.html>

The consensus of the ASB was that proposed revisions to certain requirements to indicate how those requirements would be achieved in an “assuming-responsibility” scenario as compared to a “making reference” scenario were not always successful. To address this issue the ASB recommended the following:

- Develop a separate proposed SAS that would be applicable only when the group auditor is making reference, to make it clear that the requirements applicable when making reference generally differ from the requirements that are applicable when the group auditor is assuming responsibility. This proposed SAS was preliminarily designated the “Making Reference SAS”.
- Introduce the term *referred-to auditor* in the proposed MR SAS, defined to mean an auditor of a component’s financial statements other than the group auditor and the component auditor, who performs an audit of the financial statements of a component and issues an auditor’s report in accordance with GAAS to which the group auditor makes reference in the group auditor’s report.
- Revise the definition of the term *component auditor* in the proposed Group Audit SAS to include only those auditors that the group auditor is assuming responsibility for. In the proposed SAS *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (proposed QM SAS) the definition of the term *engagement team* includes component auditors. Because under the proposed Making Reference SAS referred-to auditors would no longer be component auditors, the term *engagement team* would not include referred-to auditors, and the definition of the term *engagement team* in the proposed QM SAS would not need to be changed. This approach is consistent with that used in PCAOB standards.

## **6. Audits of LCEs**

The ASB was provided an update on the development of a comment letter on the IAASB exposure draft of the proposed International Standard on Auditing (ISA) *ISA for Audits of Less Complex Entities*. The Audits of LCEs Task Force has reviewed the IAASB documents mapping the requirements of the proposed ISA with all other ISAs, and the results of the reviews will be used in drafting the comment letter. A draft of the comment letter will be brought to the ASB for discussion in executive session at its January 2022 meeting. The deadline to submit the comment letter is January 31, 2022.

## **7. Executive Session\***

The ASB discussed revisions to the Operating Policies, to be made public and voted on at the ASB’s December 2021 meeting. Suggestions for process improvements included

- When the IAASB approves a project, having the ASB discuss how to influence the IAASB project and whether the ASB should adopt the project, taking into consideration the IAASB reasons for the change and the applicability of those reasons in our jurisdiction.
- Using a template for project proposals
- Holding roundtables at the project proposal stage
- Preparing an Executive Summary for every new SAS

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\* Note that the public highlights will not include this section.