

University of Mississippi

eGrove

Association Sections, Divisions, Boards, Teams

American Institute of Certified Public Accountants (AICPA) Historical Collection

1-1-2006

Auditing Standards Board (ASB) meeting, January 10-12, 2006, La Jolla, CA; ASB highlights January 2006

American Institute of Certified Public Accountants. Auditing Standards Board

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_assoc



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Auditing Standards Board, "Auditing Standards Board (ASB) meeting, January 10-12, 2006, La Jolla, CA; ASB highlights January 2006" (2006). *Association Sections, Divisions, Boards, Teams*. 342.

https://egrove.olemiss.edu/aicpa_assoc/342

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Association Sections, Divisions, Boards, Teams by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AUDITING STANDARDS BOARD (ASB) MEETING
January 10-12, 2006
La Jolla, CA

MEETING ATTENDANCE

ASB Members

John Fogarty, Chair
Harold Monk, Jr., Vice Chair
Barton Baldwin (Tuesday only)
Gerald Burns
Craig Crawford (except Tuesday)
Bob Dohrer
George Fritz
Jim Goad
Dan Goldwasser
Jim Lee (absent)
Wanda Lorenz
Dan Montgomery
Keith Newton
Pat Piteo
Doug Prawitt
George Rippey
Lisa Ritter
Diane Rubin
Scott Seasock

AICPA Staff

Chuck Landes, Vice President, Professional Standards and Services
Mike Glynn, Technical Manager, Audit and Attest Standards
Ahava Goldman, Technical Manager, Audit and Attest Standards
Judith Sherinsky, Technical Manager, Audit and Attest Standards
Sharon Walker, Technical Manager, Audit and Attest Standards

Observers and Guests

David Brumeloe, *KPMG*
Michael Umscheid, *Harbinger, PLC*
Abe Akresh, *Government Accountability Office*
Julie Anne Dilley, *PriceWaterhouseCoopers*
Diane Hardesty, *Ernst & Young*
Jennifer Haskell, *Deloitte & Touche*
Jan Herringer, *BDO*
Maria Manasses, *Grant Thornton*

Walt Conn, *KPMG*
Tammy Mooney, *PPC*
Mark Taylor, *SEC*
Tom Noce, *Thomas Noce*

CHAIR AND STAFF REPORTS

Mr. Fogarty and Mr. Landes provided updates on matters relevant to the ASB. Mr. Fogarty introduced the new members Bob Dohrer, Doug Prawitt and Pat Piteo and welcomed them to the ASB.

Mr. Fogarty provided the ASB with an update on the status of the risk assessment standards that the Board approved to move to a ballot vote to issue the documents as final at the October 2005 ASB meeting. He also updated the ASB on the status of the AT 501 project that the Board agreed to move to a ballot vote to issue as an exposure draft subject to certain changes at the same meeting.

Dan Montgomery and Keith Newton have been appointed to Audit Issues Task Force. They replace Mike Umscheid and Lyn Graham whose ASB terms ended in October 2005.

AGENDA ITEMS PRESENTED AT MEETING

1. Communications

Mr. Dan Montgomery, chair of the Communications task force, led a discussion of the proposed SAS, *The Auditor's Communication With Those Charged With Governance*. Mr. Montgomery distributed an updated draft revised to reflect anticipated changes to proposed ISA 260 (Revised), *The Auditor's Communication With Those Charged With Governance*, based on preliminary notes from the International Auditing and Assurance Standards Board's December 2005 discussion of the proposed ISA.

The ASB considered the proposed draft and directed the task force to:

- Clarify, early in the proposed SAS, which communications may be oral or in writing.
- Remove language relating to the application of this standard to audits of other historical information, consistent with proposed ISA 260 (revised).
- Eliminate the group audits section in the proposed SAS and include guidance on group audits in the section that addresses with whom the auditor is to communicate among those charged with governance.
- Add guidance regarding consideration of potential conflicts of interest between a subgroup of those charged with governance and the other members of the governing body.
- Include disagreements with management among the significant findings from the audit that are required to be communicated to those charged with governance.

- Include a requirement to communicate management’s consultations with other accountants with those charged with governance, unless all of those charged with governance are involved in managing the entity.
- Remove the requirement to communicate matters required by other statements or external reporting requirements and include a reference early in the proposed SAS that additional matters to be communicated are identified in other standards and that further matters may also be required to be communicated by agreement with those charged with governance or management, or by external requirements.
- Remove the requirement for the auditor to seek to establish with those charged with governance, a mutual understanding of the form, timing and expected general content of communications.
- Reference communication requirements in other SASs as an appendix instead of a footnote.

The ASB agreed to changes proposed in the agenda materials to conform AU section 541, “An Entity’s Ability to Continue as a Going Concern”, and to replace references to “audit committee” to “those charged with governance” where appropriate.

The ASB approved a motion to move to a ballot vote to issue the document as an exposure draft.

2. Quality Control

Mr. David Brumeloe, chair of the Quality Control Standards Task Force (Task Force), led a discussion of significant issues identified by the task force in revising the quality control standards. The ASB discussed the issues and directed the task force to:

- Require documentation of quality control policies and procedures, with flexibility as to the extent of the documentation required, commensurate with firm size.
- Reach out to the PCAOB regarding our quality control project. While the task force and ASB were in agreement that a firm’s quality control system needs to extend over its entire accounting and auditing practice, the ASB recognizes that its authority, in this area, extends only to quality control standards over accounting and auditing engagements of non-issuers.
- Revise or delete the proposed definition of professional standards.
- Require written confirmation of compliance with independence policies and procedures, and include in an explanatory memorandum, the reasoning for this requirement as it relates to sole proprietors.
- Define *reasonable assurance* consistently with the definition of reasonable assurance in other places in generally accepted auditing standards, and in *International Statement of Quality Control Standards No. 1*.

- Continue to allow periodic inspection of a selection of completed engagements as an option among various monitoring procedures, and review the definitions for inspection and monitoring.
- Include compensation among the personnel issues required by the quality control standard to be addressed in a firm's policies and procedures.

The ASB asked Mr. Brumeloe to address any impact from the inclusion of reasonable assurance and compensation in the quality control standards on the peer review process with the appropriate peer review committees.

3. Revisions to SAS No. 74

Mr. Rippey, a member of the SAS No. 74 Task Force, presented a draft of a proposed exposure draft that would revise Statement on Auditing Standard (SAS) No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* to the Auditing Standards Board. Mr. Rippey provided some background on SAS No. 74. He noted that the objective of the task force was to update SAS No. 74. The proposed changes are necessary due to amendments made to the Government Auditing Standards (GAS) and OMB Circular A-133. He also noted that the task force had attempted to clarify the applicability of the SAS.

The task force believes no new guidance is provided in the revised draft.

ASB members raised the following concerns about the draft:

- The objective of the proposed SAS is unclear.
- Members of the board questioned why the proposed SAS would apply to any audit performed in accordance with generally accepted auditing standards (GAAS) and why it wouldn't apply only those audits performed in accordance with GAAS and GAS.
- The language regarding illegal acts is not consistent with SAS No. 54, *Illegal Acts by Clients*, and it could be erroneously construed that the requirements are different for governmental entities.
- Further analysis of the use of the terms "should" and "must" throughout the proposed SAS is necessary.

The ASB agreed to ask the task force to take a fresh look at SAS No. 74 in light of the concerns described above. The task force should consider the objectives of the SAS, what guidance should be emphasized, and where the guidance best fits in the auditing literature. Additionally the task force should consider auditing literature contained in audit guides and what "anchoring" is necessary for the guides in this audit standard.

4. Auditor's Reports

Mr. Monk, Chair of the Auditor's Report Task Force (the Task Force), presented the issues paper to the ASB.

The ASB expressed general support for the structure of the draft document. The ASB agreed with the use of must throughout the draft document. The task force was directed to establish an unconditional requirement with respect to (i) piecemeal opinions, and (ii) in the third standard of reporting.

The ASB continues to consider the language to be used to describe what the auditor's expectations of users are. About half of the ASB members support the idea of including some language in the auditor's report; a few members are opposed to the idea; while the remaining members are undecided. The ASB directed that some form of research should be undertaken to determine whether there is a need to include additional language in the report. It is believed that undertaking some research to identify the problem will help to provide the solution.

In response to the questions raised in the issues paper, the ASB directed the task force to:

- a) Delete the language in the auditor's report that states that the auditor complies with ethical requirements.
- b) Redraft the language in the auditor's responsibility paragraph that describes the inherent limitations of the audit to be consistent with the language used in the risk assessment standards (AU section 230, *Due Professional Care in the Performance of Work*).
- c) Delete the language in the basis for modified opinion paragraph that seeks to describe why the auditor determined that the form of modification is appropriate.
- d) Move the guidance when the auditor is not independent from the footnote into the text of the standard and describe the circumstances in which the auditor may not be independent to provide context.
- e) Consider other ways in which to respond to the concern raised by the Government Accountability Office that an explanatory paragraph is required when facts are discovered subsequent to date of the auditor's report and the issuance of the subsequent year's auditor's report is imminent.

5. Related Parties

Mr. Fritz presented the agenda materials with respect to related parties. Included in those agenda materials was a discussion memorandum outlining the Related Parties Task Force's observations, comments, and concerns regarding the IAASB's proposed International Standard on Auditing 550 (Revised), *Related Parties*. The following issues in the proposed ISA were discussed:

- a) Financial reporting framework.
- b) Exculpatory language.
- c) The objective of the proposed ISA.
- d) Definitions.
- e) The required additional risk assessment procedures.
- f) Sharing of relevant related party information among the engagement team.
- g) Understanding the business rationale and controls.
- h) Arm's-length assertions.
- i) Written representations.
- j) Communications with those charged with governance.
- k) Documentation.
- l) The application guidance.

Mr. Fritz stated that the Task Force will perform the following:

- Draft a letter of comment with respect to the IAASB exposure draft and present such draft letter to the International Auditing Standards Subcommittee at its meeting in February 2006.
- Review AU section 334, *Related Parties*, and identify all procedures that are not included in the proposed ISA. A matrix will be included in the agenda materials for the April 2006 ASB meeting.
- Prepare a first-read draft of a proposed SAS to be included in the agenda materials for the April 2006 ASB meeting.

6. Revisions to SAS No. 60

A draft of the proposed SAS, *Communication of Internal Control Related Matters Identified in an Audit*, revised to reflect comments on exposure was discussed by the ASB. The proposed SAS would supersede SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*. During its discussion, the ASB recommended that the task force:

- Add a paragraph at the beginning of the proposed SAS that describes the objectives of the SAS.
- Revise the definition of significant deficiency in footnote 6 to clarify that an event whose likelihood is "more than remote" is "at least reasonably possible." This clarification was made in the PCAOB's November 30, 2005, "Report on the Initial Implementation of AS2."

- Add language to paragraph 5 from paragraph 43 of SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*, to better explain the difference between the threshold the auditor establishes for determining whether misstatements are material to the financial statements and the threshold the auditor establishes for determining whether a misstatement is more than inconsequential.
- Revise paragraph 6 to indicate that the valuation of the significance of a deficiency in internal control depends on whether a misstatement actually has occurred in addition to the potential for misstatement.
- Revise the lead-in in paragraph 7 to indicate that “likelihood” and “magnitude” are the factors the auditor must consider in evaluating control deficiencies.
- Clarify in paragraph 8 that a compensating control does not eliminate a control deficiency.
- Consider inserting the language from PCAOB Q&A 12 explaining that control deficiencies should be considered individually and in isolation, and that the existence of compensating controls does not affect whether a control deficiency exists.
- Indicate in the proposed SAS that the design and formality of an entity’s internal control may vary depending on the entity’s size, industry, culture, and management philosophy.
- In paragraph 10 add language to the first bullet that describes a deficiency that ordinarily would be considered at least a significant deficiency.
- Delete the reference to “the interaction of qualitative factors that affect internal control with quantitative factors” in paragraph 10.
- Clarify paragraph 16 so that it does not imply that the auditor is ready to determine whether a deficiency is a significant deficiency or material weakness after only considering its magnitude and likelihood.
- Clarify in paragraph 19 that the control deficiencies that must be communicated are those that that upon evaluation are considered to be significant deficiencies or material weaknesses
- Clarify in paragraph 21 that if the auditor decides to communicate certain matters early, the communication must be made to management. However, the auditor must communicate all significant deficiencies and material weaknesses in writing to management and those charged with governance in accordance with paragraph 20.

- Revise the illustrative communication in paragraph 28, used for situations in which one or more significant deficiencies have been identified but none is deemed to be a material weakness, so that the significant deficiencies do not have to be listed if they previously were communicated in writing to management and those charged with governance. Also indicate in the communication that these significant deficiencies were previously communicated.
- Indicate that the auditor should identify his or her level of responsibility, or lack thereof, for written responses added by the client to the auditor's communication regarding significant deficiencies and material weaknesses. (Some government agencies require such responses from management of the entity.)
- Not include "Framework for Evaluating Control Deficiencies," as an appendix to SAS No. 60 because it is evolving as auditors gain experience with the evaluation of control deficiencies and also because the process may be more detailed than what is required by SAS No. 60. The framework will be placed in the AICPA's Internal Control Audit Guide.

At the April 2006 meeting, the ASB is expected to vote on whether the revised proposed SAS should be issued as a final SAS. The ASB will also consider issues related to the exposure draft of AT 501, *Reporting on an Entity's Internal Control Over Financial Reporting*.

7. Adjournment

The meeting adjourned at 1:00 pm on Thursday January 12, 2006. The next meeting is April 25-27, 2006.