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## Auditing Standards Board (ASB) meeting, October 27-30, 2008, Phoenix, AZ; October 27-30, 2008 ASB Meeting Highlights

American Institute of Certified Public Accountants. Auditing Standards Board

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**AUDITING STANDARDS BOARD (ASB) MEETING**  
**October 27-30, 2008**  
**Phoenix, AZ**

**MEETING ATTENDANCE**

ASB Members

Sheila Birch  
Jacob Cohen  
Walt Conn  
Tony Costantini  
Bob Dohrer  
Charles Frasier  
Nick Mastracchio  
Andy Mintzer (by phone 10/27; 10/29-10/30)  
Keith Newton  
Pat Piteo  
Doug Prawitt  
Randy Roberts  
Darrel Schubert  
Stephanie Westington  
Art Winstead  
Megan Zietsman

*Absent*

Harold Monk, Jr., *Chair*  
Jorge Milo  
Tom Stemlar

AICPA Staff

Mike Glynn, *Audit & Attest Standards (10/28 only)*  
Ahava Goldman, *Audit & Attest Standards*  
Chuck Landes, *Audit & Attest Standards*  
Richard Miller, *General Counsel & Trial Board*  
Andy Mrakovcic, *Audit & Attest Standards*  
Judith Sherinsky, *Audit & Attest Standards*  
Linda Delahanty, *Audit & Attest Standards*  
Linda Volkert,

Observers and Guests

Abe Akresh, *Government Accountability Office*  
Ernie Baugh, *Mayer Hoffman McCann P.C.*  
Josh Burgdorf, *KPMG LLP*  
Rick Call, *Thomson Reuters (PPC)*  
Brian Croteau, *PricewaterhouseCoopers LLP*  
Julie Anne Dilley, *PricewaterhouseCoopers LLP*  
Jeff Ellis, *Securities and Exchange Commission*  
John Fogarty, *Deloitte & Touche LLP*  
Brian Fox, *Capital Confirmations*  
George Fritz (by phone 10/27 and 10/28)  
Diane Hardesty, *Ernst & Young LLP*  
Jan Herringer, *BDO Seidman LLP* (10/28-10/30 only)  
Jason Keen, *Deloitte & Touche LLP*  
Maria Manasses, *Grant Thornton LLP*  
Jeff Markert, *KPMG LLP* (10/28 only)  
Rebecca Miceli, *KPMG LLP*  
Dan Montgomery, *Ernst & Young* (10/29 only)  
Mindy Montgomery, *Deloitte & Touche LLP*  
George Rippey, *Government Accountability Office* (by phone)  
Tania Sergott, *Deloitte & Touche LLP*  
Mark Taylor, *Creighton University* (10/29 only)

Mr. Landes chaired the meeting in the absence of Mr. Monk due to a death in the family. Mr. Landes thanked the outgoing members of the ASB—Mr. Dohrer, Mr. Newton, Ms. Piteo and Mr. Prawitt—for their years of service. Mr. Landes and Mr. Fogarty provided updates on matters relevant to the ASB.

**AGENDA ITEMS PRESENTED AT MEETING**

**1. Risk Assessment**

Mr. Darrel Schubert, Chair of the Risk Assessment Standards Task Force, led a discussion of the proposed Statements on Auditing Standards (SASs) entitled

- Audit Evidence, [AU 326, SAS 106]
- Materiality in Planning and Performing an Audit, [AU 312 (Redrafted), SAS 107]
- Evaluation of Misstatements Identified during the Audit, (new)
- Planning an Audit, [AU 311 (Redrafted), SAS 108]
- Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, [AU 314 (Redrafted), SAS 109] and

- Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained. [AU 318 (Redrafted), SAS 110]

The objective of the presentation was to move to ballot the exposure draft of these standards. In prior ASB meetings, the major issues of each of the standards have been discussed. This version of the standards reflected the task force's disposition of those issues, and there remain no outstanding major issues to discuss with the ASB.

Mr. Schubert explained that on October 21, 2008, the PCAOB proposed changing its auditing standards related to the auditor's assessment of and response to risk. He explained that in general, the PCAOB's proposed risk assessment standards are substantially consistent with the ASB's risk assessment standards. Where there are differences, they are generally due to the PCAOB i) incorporating fraud risk procedures into the standards; and ii) addressing integrated audits. The SASs address only audits of financial statements. Also, the PCAOB's proposed standards do not contain the extent of application and other explanatory material as the SASs, which was added in the SASs to be helpful to auditors by providing additional content and providing illustrative examples to support the requirements. The PCAOB's comment period ends February 18, 2009. The Board directed the staff that in writing the explanatory material to the Exposure Draft, it acknowledges the PCAOB exposure draft and write a chronology of the ASB's risk assessment project. The Board also directed the staff to include as an Exhibit a summary of the major differences between the ASB's risk assessment standards and the PCAOB's proposed standards.

After discussion, a motion to move to ballot the redrafted risk assessment standards was unanimously approved by the Board. The comment period will end April 30, 2009.

## 2. Compliance Audits

Mr. Rippey, chair of the Compliance Audits Task Force, and Mr. Roberts led a discussion of a draft of a SAS that would supersede AU Section 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The ASB directed the task force to:

- Paragraph 8, revise the first sentence to begin, "A compliance audit is based on the premise..." and delete the second sentence.
- Paragraph 10a, insert the word "to" before the word "form" and delete the words "based on the audit evidence obtained."
- In paragraph 11 revise the following definitions as indicated:
  - *Audit findings*: Insert the words "the auditor in accordance with" after the word "by."
  - *Deficiency in internal control over compliance*. Insert the words "internal control over compliance exists when" after the word "in" and delete the word "that."
  - *Governmental audit requirement*. Revise the second bullet as follows "Such audit requirements that also may set forth specific supplementary requirements of the audit, for example, procedures to be performed by the auditor, documentation requirements, the form of reporting, and continuing professional education requirements with which the auditor is required to comply."

- *Known questioned costs*. Add “ Known questioned costs are a subset of likely questioned costs” at the end of the definition.
- *Material noncompliance*. Revise the definition as follows:

~~“Unless the governmental audit requirement provides an alternative definition, a~~  
A failure to follow requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that either individually or when aggregated with other noncompliance, is and considering quantitatively or qualitatively factors, could reasonably be expected to influence the decisions of users about whether or not an entity is in compliance with the applicable compliance requirements significant, either individually or when aggregated with other noncompliance, to the affected government program.  
Governmental audit requirements may provide an alternative definition.

- Paragraph 14, delete the words “the auditor’s presumption is that.”
- Paragraphs 15, 17, 23, 27, 33, 37, and A11, move the reference to the applicable AU section to a footnote.
- Paragraph 17, add, “In assessing the risk of material noncompliance, the auditor should assess the risk of noncompliance for each applicable compliance requirement.”
- Paragraph 19, insert “,including tests of details,” after “procedures”; “each of” before “the applicable”; and “in response to the assessed risks of material noncompliance. (Ref: par. A16–A17)” at the end.
- Delete paragraph 20.
- Insert the following paragraph after paragraph 20:

Paragraph 42 of AU section 318 states, in part, “If, based on the understanding of the entity and its environment, the auditor plans to rely on controls that have not changed since they were last tested, the auditor should test the operating effectiveness of such controls at least once in every third year in an annual audit.” In a compliance audit, however, if the conditions in paragraph 20 are met, the auditor should test the operating effectiveness of controls over compliance in each compliance audit. (Ref: par. A18)

- Paragraph 24, add “The first type consists of events that provide additional information about the entity’s compliance during the audit period that may affect the auditor’s report. The second type consists of events that provide evidence of noncompliance that occurs subsequent to the audit period but before the date of the auditor’s report.”
- Paragraph 25, second sentence , change “may not be” to “are not” and add a bullet stating, “Management's knowledge regarding whether any subsequent events have occurred that might affect the auditor's report on compliance.”
- Paragraph 28, last sentence, add ““that by its nature may not result in questioned costs,”
- Paragraph 30 (k), add three bullets as follows:
  - If noncompliance is found that results in an opinion modification, a description of such noncompliance or a reference to a description of such noncompliance in an accompanying schedule.
  - If required by the governmental audit requirement to report instances of noncompliance that do not result in an opinion modification, and if applicable, a statement that the results of the auditing procedures disclosed instances of

noncompliance that are required to be reported in accordance with the governmental audit requirement and a description of them or a reference to a description of them in an accompanying schedule.

- If the criteria used to evaluate compliance are
  - established or determined by contractual agreement or regulatory provisions that are developed for and directed only to the parties to the agreement or regulatory agency responsible for the provisions, or
  - available only to the specified parties.
- Paragraph 31, first sentence, replace with “When the auditor combines the auditor’s report on compliance with a report on internal control over compliance, the following should be included in the combined report:”
- Combine paragraph 31(g) and paragraph 31(h).
- Paragraph 30(i), delete “significant deficiencies” and make other editorial changes.
- Paragraph 31, add as last bullet:
  - A separate paragraph at the end of the report stating that the report is intended solely for the information and use of [*identify the body or individuals charged with governance*], others within the entity, [*identify the legislative or regulatory body*], grantors and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.
- Add a new paragraph after paragraph 31 stating:

If the governmental audit requirement requires the auditor to report on internal control over compliance, and the auditor chooses to issue a separate report on internal control over compliance, the auditor should include in that separate report the items in paragraph 31 and the following additional items:

  - a. A title that includes the word independent
  - b. A statement that the auditor audited the entity’s compliance with applicable compliance requirements pertaining to [*identify the program(s) and the period audited*] and a reference to the auditor’s report on compliance.
  - c. A statement that the audit was conducted in accordance with generally accepted auditing standards (United States of America), the standards applicable to financial audits contained in Government Auditing Standards, and the governmental audit requirement.
  - d. The manual or printed signature of the auditor’s firm.
  - e. The date of the report.
- Paragraph A8, first sentence, delete the words, “or to assist the auditor in obtaining a further understanding of the applicable compliance requirements when a program audit guide or Compliance Supplement is available.” and add at the end of the paragraph “The procedures listed in this paragraph may also assist the auditor in obtaining a further understanding of the applicable compliance requirements when a program audit guide or Compliance Supplement is available.”
- Delete paragraphs A13 and A14.

- Delete the second sentence in paragraph A19 and insert the word “some” before the word “evidence.”
- Delete the first sentence in paragraph A20 and the word “however.”
- Add the following paragraph after paragraph A22:

An example of a matter of noncompliance that occurs subsequent to the period being audited that may warrant disclosure to prevent report users from being misled is the discovery of noncompliance in the subsequent period of such magnitude that it caused the grantor to stop funding the program.

- Insert the following as a separate paragraph after paragraph A24. “Nothing precludes the auditor from restricting the use of any report. (Ref: par 30n)”
- Add the following bullet to paragraph A27
  - The discovery subsequent to the date of the compliance report that the report erroneously identified a program as being audited and covered by the auditor’s opinion, that was not required to be, and was not, audited.
- Insert the following at the end of the first sentence in the first paragraph of the appendix: “either because (1) they are not relevant to a compliance audit environment, (2) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (3) the subject matter is specifically covered in AU section 801.”
- In the list, in the appendix, of AU sections that are not applicable to compliance audits, remove paragraph 1 of AU section 316 and paragraphs 40-45 of AU section 318; add AU section 317, and change paragraph 11c-g to 11 b–h of AU Section 508
- Change “would” to “might” in paragraph A27 and delete the following bullet, “The discovery subsequent to the date of the compliance report that the report erroneously identified a program as being audited and covered by the auditor’s opinion, that was not required to be, and was not, audited.”
- In the introductory material for the proposed ED, request comments concerning the conditions that would require use of the report to be restricted.
- Make certain other editorial changes.

The ASB voted to ballot the proposed SAS for comment.

### **3. Laws & Regulations**

Ms. Sergott, member and staff of the Laws and Regulations Task Force, led the discussion of the proposed SAS, *Consideration of Laws and Regulations in a Financial Statement Audit*. The proposed SAS, which would supersede AU section 317, *Illegal Acts by Clients*, is based on the newly issued ISA 250 (Redrafted), *Consideration of Laws and Regulations in an Audit of Financial Statements*.

The ASB reviewed the proposed SAS and directed the Task Force to:

- Conform all footnotes to the standard format.

- Confirm that all references to application material paragraphs within the Requirements section were correct.
- Para 5, delete the word “taken” from the phrase “taken as a whole.”
- Para 8, towards the end of the first sentence, add the phrase “with laws and regulations” before the phrase “to the auditor’s attention.”
- Para 12, deleted the proposed phrase “through inquiries of management” but include a specific issue in the explanatory memo to the exposure draft, inquiring of respondents whether they believe the phrase is necessary.
- Para 16, move the whole paragraph to AU 333, as it deals with management representations and is more appropriately placed there. However, include a cross reference to AU 333 in the application material to this proposed SAS.
- Para 19, to combine the concepts in para A21, add the phrase “(at a level above those involved with non-compliance, if possible)” after the phrase “the auditor should discuss the matter with management.”
- Para 22, delete the word “therefore” in the first sentence and in the phrase “the auditor should communicate with those charged with governance matters involving non-compliance,” and change “non-compliance” to “identified”
- Para 29, insert the phrase “both inside and” after the phrase “those charged with governance and other parties.”
- Para A1, in the last sentence, change the phrase “penalties may be imposed” to “laws and regulations may provide for the imposition of penalties.”
- Para A2, add “A legal function” as an additional bullet.
- Para A5, in the second sentence, change the phrase “AU section 508 addresses” to “AU section 508 sets forth.”
- Para A5, delete the example of the Single Audit Act (last four sentences of the paragraph).
- Para A7, in the fourth bullet, delete “an request copies of such policies and procedures.”
- Para A7, add the phrase “(including the prevention of non-compliance)” to the end of bullets 5 and 6.
- Para A8, change the second sentence to eliminate the concept that these laws and regulations are “recognized by auditors” and combine item 3 with item 1, to read as follows: “These laws and regulations generally are (1) directly relevant to the determination of material amounts and disclosures in the financial statements and readily evident to the auditor as such, and (2) limited in number.”
- Para A9, delete the first sentence.
- Para A9, to be consistent with wording in other places of the proposed document, change the phrase “having a direct and material effect on the determination of financial statement amounts” to “having a direct effect on the determination of material amounts and disclosures in the financial statements.”
- Para A9, change the reference from AU section 110 to the proposed SAS, Overall Objectives and add a footnote to the exposure draft.
- Para A10, delete the phrase “such as.”
- Para A12, in the second sentence, insert “may” after “Those other laws or regulations.”
- Para A12, in the third sentence, change the word “illegality” to “identified or suspected non-compliance.”



- Para A12, delete the example in the last two sentences of the paragraph.
- Para A13, change “violations” to “non-compliance with” and “illegal act” to “non-compliance.”
- Para A15, add “an entity’s” after the phrase “the amount of” and delete the word “required.”
- Para A18, in the penultimate bullet, change “Violations of” to “Non-compliance with.”
- Para A19, in the second bullet, delete “of” and in the fourth bullet, change “apply” to “applying.”
- Para A20, delete the first bullet and combine the concepts into the second bullet by: (1) adding a new first sentence, “The quantitative and qualitative materiality of the effect of non-compliance.”; (2) change the phrase “including, for example,” to “may include”; and (3) adding a new last sentence, “For example, an illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility that it could lead to a material contingent liability or a material loss of revenue.
- Para A20, in the penultimate bullet, delete the word “unusual.”
- Para A21, delete this paragraph, as the concept was included in paragraph 19.
- Para A25, in the first sentence, change the word “exceptional” to “rare.”
- Para A28, add a footnote to the reference to the AU section.
- Para A28, change “wish to” to “consult” and “client” to “entity.”
- Para A30, change the phrase “parties outside the entity” to “other parties inside or outside the entity.”

The ASB voted to ballot the proposed document for exposure.

#### **4. Related Parties**

Mr. Fritz (via phone), chair of the Related Parties Task Force, and Mr. Glynn led the ASB in a discussion of issues with respect to the drafting of a SAS that is intended to be redraft AU section 334, *Related Parties*, and converge with ISA 550, *Related Parties*.

Following is a summary of the significant issues discussed at the meeting:

- Extant AU 334 is based directly on the related party requirements in Financial Accounting Standards Board Statement No. 57, *Related Party Disclosures* – therefore, the auditing standard is tied into a financial reporting framework that contains related party requirements (a “robust framework”). However, ISA 550 is framework neutral and attempts to cover all financial reporting frameworks including US GAAP, IFRS, other GAAP, OCBOA, and other non-GAAP. The ASB agreed that the framework clarifications should be made in conjunction with the clarification of AU 623, *Special Reports*. The Task Force will consider Mr. an approach, whereby the requirements for auditing related party transactions would be at the same level for all frameworks, that is, equivalent to the procedures for robust frameworks.
- There appears to be a disconnect between the objective stated in paragraph 9(a) of the ISA and the requirements. The requirement to obtain written representations applies only where the applicable financial reporting framework establishes related party

requirements. The ASB directed that the proposed SAS include specific guidance with respect to the representation letter whereby, for frameworks that do not establish related party requirements, the applicable definitions would be included in the engagement letter or written representations. The ASB further directed that paragraph 26 be split into two separate paragraphs so that paragraph 26(a) would apply to all frameworks, and 26(b) would apply only to robust frameworks.

- The issue with respect to assertions that related party transactions were conducted on term's equivalent to those prevailing in an arm's length transaction was discussed and the ASB concluded that the first two sentences of AU 334.12 should be included in the proposed SAS as either "essential application guidance" in the requirements section of the SAS or as application material. The sentences from AU 334.12 read:

Except for routine transactions, it will generally not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or assuming it would have taken place, what the terms and manner of settlement would have been. Accordingly, it is difficult to substantiate representations that a transaction was consummated on terms equivalent to those that prevail in arms-length transactions.

- The ASB also considered whether such application guidance in the ISA with respect to special purpose entities should be excluded from the proposed SAS, and concluded it should not be excluded, as it is not harmful and could confuse practitioners if it was excluded.
- The ASB members provided feedback on specific paragraphs in the proposed SAS column of the mapping document.

The Task Force is scheduled to bring a revised draft to the ASB in July 2009 that is planned to be considered for exposure. A revision of AU section 623 is scheduled to be considered at the same meeting.

## **5. Initial Engagements**

Mr. Mintzer, chair of the AU 315 Task Force, led the discussion about the proposed Statement on Auditing Standards (SAS) combining the guidance in International Standard on Auditing (ISA) 510 (Redrafted), *Initial Audit Engagements—Opening Balances* and AU 315, *Communications Between Predecessor and Successor Auditors*. The ASB directed the Task Force to:

- Include guidance in the proposed SAS on reaudits, at least until a more suitable location becomes known as the ASB's clarification project progresses, and propose conforming amendments for the appropriate placement of communications required before engagement acceptance.
- Retain the U.S. definition of predecessor auditor but drop the second phrase that begins with "has resigned...."

- Restore to a requirement guidance that the successor auditor should request the client to authorize the predecessor auditor to allow a review of the predecessor auditor's working papers, and add a requirement that, if obtained, the auditor should assess the suitability of the predecessor's auditor's working papers.
- Move paragraphs 7 through 9 to follow paragraph 10 to improve the sequence of the communications with the client and the predecessor auditor.
- Replace application guidance in paragraph A10 that states that "the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers" with guidance from extant AU 315.13 that states that "the successor auditor's review of the predecessor auditor's working papers may affect the nature, timing, and extent of the successor auditor's procedures with respect to the opening balances and consistency of accounting principles."
- Delete the illustrative reports in the Appendix.

A revised draft will be brought to the ASB in December.

## **6. Required Supplementary Information/Other Supplementary Information/Supplemental Information**

Mr. Markert, Chair of the Required Supplementary Information/Supplementary Information Task Force (Task Force), led a discussion of the proposed Statements on Auditing Standards (SASs) entitled

- *Required Supplementary Information* (the "RSI SAS"),
- *The Auditor's Responsibility in Relation to Supplementary Information Not Required by a Designated GAAP Standard Setter in Documents Containing Audited Financial Statements* (the "OSI SAS"), and
- *The Auditor's Responsibility When Engaged to Opine as to Whether Supplementary Information is Fairly Stated in Relation to the Basic Financial Statements Taken as a Whole* (the "In Relation To SAS").

The ASB reviewed the materials and directed the Task Force to:

- Include, in all three proposed SASs, a flowchart which illustrates the various types of supplementary information and which standards apply to each type.

### ***In Relation To SAS***

- Paragraph 1, delete the second sentence "By providing such an opinion, the auditor is providing a high level of assurance that the supplementary information is not misstated by an amount that would be material to the financial statements.", because the ASB believes that the performance of "limited procedures" as stated in the SAS would not provide the auditor with a basis for expressing a high level of assurance.
- Paragraph 3, revise the objective to "The objective of the auditor is to evaluate and report as to whether supplementary information is not misstated by an amount that would be material to the financial statements."

- Paragraph 5 (c), delete the requirement for the auditor to determine that the supplementary information was subjected to the client's internal control over financial reporting and the auditor has evaluated the design of the related controls, including relevant control activities, and has determined whether they have been implemented.
- Paragraph 5 (e), continue to permit an auditor to express an in relation to opinion when a qualified opinion is expressed on the financial statements.
- Paragraph 6 (c), add application material clarifying that this procedure can be performed on a test basis.
- Paragraphs 6 and 7, and Exhibit, change "limited procedures" to "additional procedures"; because the procedures are in addition to procedures performed during the financial statement audit, such procedures are not limited.
- Paragraph 8, delete the reference to dual dating, and clarify that the report may be separate or included with the report on the financial statements.

### ***OSI SAS***

- Paragraph 18, move to application material and present as guidance regarding including a disclaimer of opinion with respect to the OSI in the auditor's report on the financial statements.

### ***RSI SAS***

- The ASB members had no changes to the proposed SAS, as revised based on the feedback received at the August 2008 ASB meeting.

Revised drafts will be brought to the December 2008 ASB meeting, where the ASB will be asked to vote to ballot the three proposed SASs for exposure.

## **7. Audit Documentation**

Ms. Zietsman, chair of the Audit Documentation Task Force, led a discussion of the proposed SAS *Audit Documentation (Redrafted)*. The ASB considered the issues raised in the agenda material and directed the task force to:

- Retain the definition of experienced auditor as revised in paragraph A1 of the application material, and add the phrase "but does not mean that the auditor is required to have performed comparable audits."
- Retain the requirement to document the extent of the review, and add "in accordance with the firm's policies and procedures addressing review responsibilities," in paragraph A15.
- Retain the requirement to include abstracts or copies of significant contracts or agreements in the audit documentation.

In addition, the ASB directed the task force to:

- Paragraph 10, delete “Audit documentation, however, is not a substitute for the entity’s accounting records.”
- Paragraph 18, change “envisaged” to “addressed”
- Paragraph A2, revise the wording to clarify that when there are delays in issuing the report, facts may come to the auditor’s attention that require additional procedures relating to subsequent events, and referencing the documentation requirements in paragraph 14.
- Paragraph A5, revise the wording to that used in SQCS No. 7, paragraph 67.
- Paragraph A5, change “audit program” to “audit plan” and added footnote reference to AU section 311, Planning and Supervision, paragraphs 19-21
- Paragraph A10, third bullet, add “(including identification of corrected and uncorrected misstatements)” after “results of audit procedures” and add footnote reference to AU section 312, Audit Risk and Materiality in Conducting an Audit. This replaces the last bullet that was included in the exposure draft but deleted by the task force.
- Paragraph A14, second bullet, add “for the period being audited” at the end.
- Paragraph A21 and A22, add footnotes referencing to Proposed SAS, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards
- Paragraph A22, change “exceptional” to “rare”.

The ASB voted to ballot issuance of the proposed SAS as a final standard.

## **8. Auditor’s Reports**

Mr. Montgomery, Chair of the 700 Report Task Force, led a discussion of the materials for Agenda Item 8, *Forming an Opinion and Reporting on Financial Statements*.

The ASB discussed the four possible scenarios for reporting under the ISA structure:

- General Purpose/Fair Presentation Framework (e.g. GAAP, IFRS)
- General Purpose/Regulatory or Contractual-Based Framework (no examples in the U.S.)
- Special Purpose/Fair Presentation Framework (e.g. OCBOA)
- Special Purpose/ Regulatory or Contractual-Based Framework (e.g. contracts, loan agreements)

The ASB considered the issues presented and:

- Agreed with the task force that, at this time, an other comprehensive basis of accounting (such as cash basis, tax basis, or regulatory basis) would be considered a special purpose framework and the guidance in AU 623 will be considered by the 800 report task force. The 700 task force will consider further application material to better explain why these reports are considered special purpose and therefore are to

follow the 800 reporting standards. The 800 task force will also develop similar application guidance and has been asked to challenge the wording of the “alert” paragraph that is required to be included in all special purpose framework reports.

- Agreed that in the U.S., there are no accounting frameworks that are regulatory or contractual-based frameworks that are also considered to be general purpose. Requirements and guidance related to this category of reporting will not be included in the proposed SAS.
- Determined that the use of the term “regulatory or contractual based framework” as defined in the proposed SAS, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards* (“Overall Objectives SAS”) may need to be reconsidered. The ASB agreed that, in the United States, a basis of accounting prescribed by a regulatory agency (e.g., accounting practices prescribed or permitted by a state insurance regulator) would in many cases be considered a fair presentation framework. Accordingly, such frameworks should not be considered or referred to as compliance frameworks (unless that regulatory framework would prohibit any additional disclosures to be made). The Overall Objectives task force will consider this in conjunction with the comments received from the exposure period for their ED.
- Directed the task force to include ISA 710 information about comparative financial statements in the proposed SAS but to scale back the guidance on corresponding figures since corresponding figures are not commonly used in the United States. The task force will consider how best to handle corresponding figures in the proposed SAS and make the guidance more consistent with what is currently in AU section 508.
- Agreed that the use of “in accordance with” instead of “in conformity with” in the auditor’s report is acceptable.
- Discussed deleting the definitions for “applicable financial reporting framework” and “financial reporting framework” from the proposed SAS, as such definitions are included in the Overall Objectives SAS.
- Agreed that the task force should add additional illustrative report examples.
- Agreed that the reissuance of reports guidance should be considered by the subsequent events task force.
- Directed the task force to retain the requirements on the supplementary information in paragraphs 46 and 47 of ISA 700 in the proposed SAS.

The ASB discussed the broad issue of whether or not the auditor’s report should conform to the report required by ISA 700. There were several issues discussed:

- Should the proposed SAS to converge with the ISA, which will result different reports in the U.S. for nonissuers and issuers?

- Should the ASB wait for the results of the auditor's report research project currently in process, instead of changing the form of the report now, and possibly changing it again once the research is complete?
- Should the task force move ahead with an ED or a discussion memorandum?

After a lengthy discussion, the ASB directed the task force to continue developing an exposure draft and to consider the ASB's concerns around converging the auditor's report with the ISA language. The task force will bring the ASB different auditor's report options to consider at the January 2009 meeting.

## **9. Audit Sampling**

Mr. Dohrer, chair of the Audit Sampling Task Force, led the discussion of proposed SAS *Audit Sampling*. The following is a summary of the major issues discussed.

Paragraph 5 (a) — the Task Force recommended amending the definition of audit sampling in the ISA definition to reflect the notion that each sampling unit selected should have *an equal* chance of being selected. The task force's view is that selecting items in a way that does not provide an equal chance of selection is not likely to yield a representative sample. The ASB expressed concern about the task force's recommendation because the revised definition would have the effect of excluding from audit sampling several methods currently used in practice, e.g., monetary unit sampling. After discussion, the ASB directed the Task Force to look further into the issue.

Paragraph A14 — This paragraph provides guidance to the auditor about the use of statistical or non statistical methods of sampling. The Task Force recommended amending this paragraph to retain extant guidance because the Task Force believes that the ISA guidance seems to solely focus on size. The ASB directed the task force to look at the PCAOB's conforming changes for further guidance.

Paragraph A24 — This paragraph and the related requirement (paragraph 13) address the issue of anomalies. The Task Force recommended amending A 24 to more appropriately address the issue of anomalies. The ASB expressed concern about the position taken by the IAASB on this issue, particular the introduction of the concept of "a high degree of certainty." This concept seems to establish a higher threshold than reasonable assurance used throughout the auditing standards. After discussion, the ASB directed the Task Force to delete this requirement and to include application guidance that whenever the auditor identifies a misstatement involving sampling, even those that the auditor believes to be an anomaly, the auditor would request management to investigate the misstatement.

## **10. Subsequent Events**

Ms. Birch, Chair of the Subsequent Events Task Force (Task Force), led a discussion of proposed SAS, *Subsequent Events*, which combines the requirements and guidance in International Standard on Auditing (ISA) 560 (Redrafted), *Subsequent Events*, and the relevant content from:

- AU 530, Dating of the Independent Auditor's Report
- AU 560, Subsequent Events, and
- AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*

With regard to the issues presented, the Board agreed with the Task Force to:

- Maintain the ISA definition of subsequent events and combine AU 560 and AU 561 into one SAS, similar to the ISA.
- Remove all requirements and guidance pertaining to the accounting for subsequent events from the auditing literature. It was noted that FASB and GASB are addressing subsequent events within their literature; however, the Board was uncertain about FASAB's activities in this area.
- Include the relevant reporting guidance (paragraphs .02 through .05) in AU 530. It was also noted that the Task Force will consider the guidance in paragraphs .06 through .08 on report reissuances.

Due to the complexity and importance of the matter, Issue 3, which pertains to the FASB's proposed codification and management's responsibility for subsequent events and dating the auditor's report will be discussed with the AITF.

In addition, the ASB directed the Task Force to:

- Paragraph 2, revert to the ISA wording to use "up to."
- Paragraph 5, add "and, where appropriate, those charged with governance" to the definition of "date of approval of the financial statements."
- Paragraph 5, in lieu of "date the financial statements are issued" consider whether "report release date" would be more appropriate. It was noted that the auditor can only control the date he or she releases the auditor's report, not the date management issues the financial statements.
- Paragraph 6, put the deleted sentence back into the paragraph.
- Paragraph 9, remove the requirement for written representations and include it in AU section 333, Management Representations.
- Paragraph 12(b), delete this paragraph, as it is not relevant in the United States; however, consider whether it could be incorporated into the application material. Also clarify that nothing precludes the auditor from bringing down the report date.
- Paragraph 13, similar comment to use report release date, as indicated above.
- Paragraph A1, revise the last sentence to be more consistent with AU section 550, *Other Information in Documents Containing Audited Financial Statements*.
- Paragraph A2-A, revise the first sentence to begin with "Law or regulation outside the United States."



- Paragraph A3, align the guidance relating to sufficient appropriate audit evidence more closely with AU section 530, Dating of the Independent Auditor's Report; align the paragraph with the changes proposed in paragraph 5; and make certain that the footnote reference to AU 530 is correct.
- Paragraph A4, consider this paragraph in light of the comment on report release date.
- Paragraphs A5, A10, A14 and A17, specific recommended changes relating to audits of governmental entities will be provided directly to the Task Force.
- Paragraph A7, delete "in this context" and, in the last sentence, clarify "these inquiries."
- Paragraph A8, revise this paragraph in connection with removing the requirement on written representations.
- Paragraph A11, revise this paragraph in accordance with the new drafting conventions to remove the "may be." The references to other AU sections will also be conformed to the new drafting conventions.
- Paragraph A12, replace "audit work on those financial statements was completed" with "sufficient appropriate audit evidence." Also, reconsider the language in the extant standard.
- Paragraph A13, consider the guidance on "imminent" from GAGAS. Also, move the paragraph into the next section (facts which become known to the auditor after the financial statements have been issued).
- Paragraph A16-C, reconsider the language in the extant standard.
- Paragraph A20, modify the last sentence to remove the present tense.

The proposed SAS will be brought to the January 2009 ASB meeting with the intent to vote to ballot for exposure.

### **Other Matters**

1. At its July 28–31, 2008 meeting, the ASB voted to ballot for exposure a proposed Statement on Standards for Attestation Engagements (SSAE), *Audit Considerations Relating to an Entity Using a Service Organization*. Due to substantive changes resulting from comments received during the balloting process, a revised draft of proposed SAS, *Audit Considerations Relating to an Entity Using a Service Organization* was distributed. Mr. Conn, chair of the Service Organizations Task Force, led a discussion of the revisions to the draft. The ASB directed the staff to move paragraph A42 of the proposed SSAE, which addresses modification of the service auditor's report for circumstances other than those identified in paragraph 59, from application guidance to the requirements section with the appropriate change of wording from, "may modify the report" to "should modify the report."

The ASB voted to reballot the revised draft for exposure.

2. Brian Fox of Capital Confirms gave a demonstration of Capital Confirmations CONFIRM system.

The meeting adjourned at 11:30 am.