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Auditing Standards Board (ASB) meeting, April 27-30, 2009, New York, NY

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AUDITING STANDARDS BOARD (ASB) MEETING
April 27-30, 2009
New York, NY

MEETING ATTENDANCE

ASB Members

Harold Monk, *Chair*
Ernie Baugh
Sheila Birch
Jacob Cohen
Walt Conn
Tony Costantini
Charles Frasier
Nick Mastracchio
Jorge Milo (4/27, 4/28 and 4/30 only)
Andy Mintzer
Thomas Ratcliffe
Randy Roberts
Darrel Schubert
Tom Stemplar
Mark Taylor
Phil Wedemeyer
Stephanie Westington
Art Winstead
Megan Zietsman

AICPA Staff

Ahava Goldman, *Audit & Attest Standards*
Chuck Landes, *Audit & Attest Standards*
Richard Miller, *General Counsel & Trial Board (4/30 only)*
Hiram Hasty, *Audit & Attest Standards*
Linda Delahanty, *Audit & Attest Standards*
Judith Sherinsky, *Audit & Attest Standards*
Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Mike Adaszczik, *KPMG LLP* (4/27 and 4/30 only)
Abe Akresh, *Government Accountability Office*
Ed Bryant, *KPMG LLP*
Brian Croteau, *PricewaterhouseCoopers LLP* (4/29 only)
Julie Anne Dilley, *PricewaterhouseCoopers LLP*
Robert Dohrer, *McGladrey Pullen LLP*
Jeff Ellis, *Securities and Exchange Commission*
John Fogarty, *Deloitte & Touche LLP*
Brian Fox, *Capital Confirmation Inc.* (4/27 only)
Glen Gary, *California State University* (4/29 only)
James Gunn, *IFAC* (4/29 only)
Diane Hardesty, *Ernst & Young LLP*
Jennifer Haskell, *Deloitte & Touche LLP* (4/29 only)
Jan Herringer, *BDO Seidman LLP*
Susan Jones, *Grant Thornton LLP* (4/28 only)
Maria Manasses, *Grant Thornton LLP*
Ted Mock, *University of California* (4/29 only)
Dan Montgomery, *Ernst & Young LLP* (4/28 only)
Mindy Montgomery, *Deloitte & Touche LLP*
Joanne Moores, *IFAC* (4/29 only)
Mark Nichols, *Mayer Hoffman McCann P.C.*
Brian Richson, *PricewaterhouseCoopers LLP* (4/27 and 4/28 only)
Jeff Sage, *KPMG LLP*
Jerry Turner, *University of Memphis* (4/29 only)
Gail Vallieres, *Government Accountability Office*
Mary Ann White, *Thomson Reuters (PPC)*

Mr. Monk, Mr. Fogarty and Mr. Landes provided updates on matters relevant to the ASB. Ms. Goldman reviewed future dates set for ASB meetings (see Appendix).

AGENDA ITEMS PRESENTED AT MEETING

1. Confirmations

Ms. Zietsman, Chair of the Confirmations Task Force, led a discussion of the proposed Statements on Auditing Standard (SAS), *External Confirmations*. As a result of the discussion of the issues included in Agenda Item 1, *Confirmations Issues Paper*, the following changes were made to the proposed SAS:

- The definition of external confirmation was modified to provide for the inclusion of confirmations effected through direct access by the auditor to information held by a third party.

- Paragraph 7(c) was modified to indicate that when designing confirmation requests, the auditor should determine that the requests are properly directed to the respondent and provide for being responded to directly to the auditor.
- A reference to paragraph A12 was added to paragraph A6.
- Paragraph A16 was modified to clarify that, to the extent that restrictive language included on confirmation responses does not relate to the assertions being tested by the confirmation, the restrictive language does not necessarily invalidate the reliability of the response as audit evidence.
- Paragraph A20 was clarified to indicate that both conditions in (a) and (b) are required to be present for alternative procedures to be omitted.

The ASB unanimously voted to ballot the proposed SAS for exposure.

2. Reporting on Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country

Mr. Conn, Chair of the AU 534 Task Force (Task Force), led the discussion for Agenda Item 2, *Reporting on Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country*. The objective of the Task Force is to redraft AU Section 534, *Financial Statements Prepared for Use in Other Countries*, in accordance with the clarity conventions. Mr. Conn noted the draft of the clarified standard provided for the December 2008 ASB meeting was not discussed at the meeting; however, editorial recommendations were received outside of that meeting and have been reflected in the revised draft as deemed appropriate by the Task Force.

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

- AU534 is intended for fair presentation frameworks. Some members of the ASB believe the current draft of AU534 does not clearly express that AU534 is intended for fair presentation frameworks and may be misapplied to compliance frameworks. The ASB recommended that the draft be revised to include a reference to compliance frameworks, along with guidance to follow the requirements for regulatory basis special purpose frameworks in the ASB's proposed standard, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.
- The definition of “performance standards” included in the current draft of the standard is not considered necessary, as the auditor is required to follow all of U.S. GAAS, except for the reporting requirements in paragraph 12 of the current draft. The definition of performance standards will be removed from the draft standard.
- The ASB discussed the requirements of an auditor before accepting an engagement, as well as before reporting on financial statements. The ASB agreed the clarified standard should reference the new proposed standard “Agreeing the Terms of Audit Engagements” which is currently being developed.
- The timing for the release of the exposure draft and the effective date were discussed by the ASB. A consensus was reached that AU534 would be exposed with the AU 700 and 800 series to ensure users see the requirements of the related standards. A majority

of the ASB expressed a view that the effective date of the revised standard should coincide with the effective date generally used for the clarified standards.

- The ASB discussed whether an unqualified opinion on foreign GAAP financial statements (unaccompanied by a modified opinion relative to U.S. GAAP) for use in the U.S. violates Rule 203. After discussion, it was determined that it would violate Rule 203. If financial statements are prepared in accordance with a financial reporting framework generally accepted in another country, that will have more than limited use in the United States, the auditor should report using a modified opinion because of departures from U.S. GAAP. Therefore, the current clarified AU534 will be revised to reflect this conclusion.

3. Quality Control

Sheila Birch, member of the Quality Control Task Force, led a discussion of the proposed SAS, *Quality Control for an Audit of Financial Statements*, and of the proposed Statement on Quality Control Standards (SQCS), *A Firm's System of Quality Control*. The proposed SQCS is a redrafting of SQCS No. 7 for clarity; SQCS 7 was drafted in convergence with ISQC1.

The ASB directed the Task Force to make the following changes:

Proposed SAS

- SAS paragraphs 4 and A2, to clarify the engagement partner's responsibility, revise last sentence as follows: "...unless, based on information provided by the firm or other parties ~~suggests otherwise,~~ the engagement partner determines that it is inappropriate to do so."
- Paragraph 7, change definition of monitoring to conform to changes made to proposed SQCS.
- Paragraph 22, add "to the engagement partner" after "circulated" to clarify engagement partner's responsibility.
- Paragraph A23, delete as application material not considered necessary.
- Various editorial changes.

Proposed SQCS

- Paragraph 9, add reference to the proposed Glossary, to be consistent with ISQC 1.
- Paragraph 10, change proposed effective date to January 1, 2011.
- Paragraph 19, add reference to "reasonable assurance", consistent with paragraphs 20, 26, 30, 34 and 51.
- Paragraph 33, move to follow paragraph 30.
- Paragraph 46, add a requirement, from AU section 311, for a firm's procedures to enable a member of the engagement team to document that member's disagreement with the conclusions reached after appropriate consultation. The ASB considered that this requirement is more appropriately placed at the firm level than at the engagement level.
- Paragraphs 51 and 12, add ", including a periodic review of engagement documentation, reports and clients' financial statements for a selection of completed engagements," to the requirements for, and definition of, monitoring.

- Paragraph 63, add reference to paragraph 59 to indicate that the complaints and allegations to be documented are those complaints relating to quality control.
- Paragraphs A12 and A13, delete as unnecessary.
- Paragraph A18, add “planning the audit” to make explicit.
- Paragraph A28, last bullet, revise wording to be consistent with AT 501 terminology.
- Paragraph A51, move to follow A43.

Other changes:

- Add AU section 311, paragraphs 28-32 to proposed SAS mapping document and added discussion of AU section 311 to “Changes from Existing Standards” section of both exposure draft documents, as exposure draft of proposed SAS *Initial Audits* states that those paragraphs were expected to be included in proposed QC SAS, and a requirement from AU section 311 was included in the proposed SQCS.
- Add a request for respondents to consider, with respect to the Public Company Accounting Oversight Board’s proposed standard, *Proposed Auditing Standard — Engagement Quality Review*, whether additional requirements relating to engagement quality control review should be included in the proposed standards.

The ASB unanimously voted to ballot the proposed standards for exposure.

4. Estimates/Fair Values

Ms. Zietsman, chair of the Accounting Estimates Task Force (the Task Force), led the discussion of a proposed SAS, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*. The objective of the presentation was to discuss a draft document of this proposed SAS. The Task Force previously obtained some preliminary views from the ASB on most of the issues in this Agenda Item at its January 2009 meeting. The proposed SAS has been revised to reflect input from the ASB.

The following are the highlights of the significant matters discussed.

The ASB reaffirmed the tentative conclusions reached at the January 2009 ASB meeting with respect to:

- Non monetary items—the definition of an accounting estimate in the proposed SAS should only focus on accounting estimates and non-monetary estimates are outside the scope of this proposed SAS.
- Neutrality of Accounting Framework—the proposed SAS should be written framework neutral. No appendix was necessary to include matters specific to the U.S. The Task Force also reviewed the Practice Aid on Alternative Investment and concluded that no additional guidance was considered necessary to be added to the proposed SAS. Staff also reviewed the paragraphs and footnotes that appear to be U.S.-centric and made edits as necessary.
- Application material related to collateral—Extant AU 328.50 contains application material dealing with collateral and its effects in determining fair value, as well as considerations when an estimate is made as of a different date than the reporting date, which is not in ISA 540. The ASB agreed that this content is useful and should be retained in the proposed SAS.

- Application material related to illiquid assets—In October 2008, the IAASB issued an audit practice alert entitled, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*. In addition to pointing the auditor to the relevant auditing literature, this paper provides guidance which may be helpful to the auditor. The ASB agreed to add this content as application material in the proposed SAS to address the issue of illiquid assets.
- Disposition of AU section 332, *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*—The ASB agreed that many of the requirements within AU 332 appear to be redundant or very similar to requirements that are in the risk assessment standards or elsewhere, i.e., just rephrased in the context of this subject matter. As a result, the ASB agreed that AU section 332 be rescinded because substantially all of the requirements are covered elsewhere in the auditing standards and the application guidance can be addressed in Audit Guide.

The ASB reached the following conclusion with regards to the interpretations to AU332.

- AU section 9328 *Auditing Fair Value Measurements and Disclosures*—This interpretation provides guidance concerning auditing interests in trust held by a third party trustee and reported at fair value. After discussion, the ASB agreed to move this interpretation to the Not for Audit Guide.
- AU section 9342 *Auditing Accounting Estimates*—this interpretation provides guidance about performance and reporting guidance related to fair value disclosures. After discussion, the ASB agreed that the interpretation be retained, but its content need to be updated

Paragraph Level Comments:

- Paragraph 4—the phrase “this is particularly” is not clear. The notion that the difference between an estimate originally recognized or disclosed and its outcome are not misstatements is an inherent part of an estimate and not necessarily a particular factor of an estimate.
- Paragraph 8c—a member raised the issue that the requirement in 8c is difficult to operationalize. As written, the requirement suggests that this procedure should be done in all circumstances. However, a subsequent resolution of the estimate (after the date of financial statements but before the date of the opinion) may obviate the need to perform this requirement.
- Paragraph 9—the statement that the review is not intended to call into question made in the past does not seem to limit the auditor’s responses to material items.
- Paragraph 16—the phrase “if considered necessary” is not clear.
- Paragraph 22—The ASB questioned whether “reasonable” is the appropriate threshold or whether “fairly stated” is more appropriate. The ASB discussed whether this requirement which deals management representations should be more appropriately included in the Management Representations proposed SAS or be included in this proposed SAS. The ASB directed this Task Force to work with Management Representations Task Force to resolve this issue.
- Paragraph 23—this paragraph deals with communications with those charged with governance. The ASB directed the Task Force to re-challenge whether the addition of this paragraph is necessary in view of the ASB’s policy to include requirements expected in all audits in the respective SAS which deals with the subject matter.

- Paragraph 11—the application guidance in this paragraph is not necessarily limited to governmental entities because it could equally be applicable to other entities. The ASB agreed to delete this paragraph.
- Paragraph A37—The example in this paragraph is not a useful illustration of the concept. Look to replace it with a better example.
- Paragraph A68—the content in this paragraph is not necessarily limited to smaller entities.

5. Auditor’s Reports – 700 Series

Mr. Montgomery, Chair of the 700 Report Task Force, led a discussion of the materials for Agenda Item 5 that contained the following proposed SASs:

- *Forming an Opinion and Reporting on Financial Statements*
- *Modifications to the Opinion in the Independent Auditor’s Report*
- *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*

Forming an Opinion and Reporting on Financial Statements

The draft of the proposed SAS reflected the Task Force’s disposition of issues discussed with the ASB at its October 2008 and January 2009 meetings. With regard to the issues presented in April, the ASB directed the Task Force as follows:

- *Signature on the Auditor’s Report*— The ASB agreed with the proposed SAS requirement for a manual or printed signature of the auditor’s firm.
- *Management Responsibilities for the Financial Statements*— The ASB agreed that the description of management’s responsibilities in the auditor’s report should retain the words “this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.” The ASB concluded that this language was appropriate in the U.S. given that management’s responsibility regarding internal control over financial reporting is generally well understood in our jurisdiction.
- *AU Section 504, Association With Financial Statements*—The ASB recommended that guidance in AU section 504 *Association With Financial Statements* be retained as a separate SAS.

The ASB discussed the proposed SAS *Forming and Opinion and Reporting on Financial Statements* and directed the task force to—

- Add “in accordance with a fair presentation framework” to paragraph 2 and eliminate the references to “when reporting under fair presentation” throughout the remainder of the proposed SAS.
- Revise paragraph 1 to clarify the reference to “as a whole.”
- Revise the objectives so that forming an opinion is first and combined with the objectives for comparative financial statements.
- Consider how not-for-profit financial statements may be affected by the guidance on comparative financial statements.

- Clarify the wording in paragraph 19 (and A14) to conform to Rule 203.
- Provide application material for the level of review that is required on the audit documentation in paragraph 39a.
- Move all the restricted use requirements and application material (paragraphs 43 and A41-A42) to the proposed SAS *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. Include a footnote reference to such guidance when restricted use reports are discussed in paragraphs 45 and 46.
- Include information about reports on compliance with contractual agreements or regulatory provisions (paragraphs 44-46) in the first paragraph of the proposed SAS.

Modifications to the Opinion in the Independent Auditor's Report

With regard to the issues presented in April, the ASB directed the Task Force as follows:

- *Uncertainties and Scope Limitations*—The ASB agreed with the task force that the proposed SAS adequately covers the guidance in extant AU 508.29-.32.
- *Departures from GAAP involving Risks and Uncertainties*—The ASB agreed that the proposed SAS adequately covers the guidance in extant AU 508.45-.49.
- *Interpretation 3 to AU 410, The Impact on an Auditor's Report of an FASB Statement Prior to the Statement's Effective Date*—The ASB agreed that this interpretation does not fit in the proposed SAS. The task force will consider where best to include the guidance from this interpretation.

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

With regard to the issues presented in April, the ASB directed the Task Force as follows:

- *Use of EOM and OM Paragraphs*—The ASB generally agreed with the use of EOM and OM paragraphs. The task force is to consider which examples from extant AU 508.11 should be included in the proposed SAS.
- *Required Explanatory Paragraph for Changes in Accounting Principles*—The ASB is in favor of retaining a consistency paragraph in the auditor's report. The task force is to consider how best to include such requirement in the proposed SAS.
- *Restricting the Use of an Auditor's Report*—The ASB did not object to the inclusion of this guidance in the proposed SAS. The task force was asked to determine whether any of the ISAs require an EOM or OM paragraph, and determine the requirements of the other standards that should be listed in this proposed SAS.
- *Liquidation Basis of Accounting*—The ASB agreed that this is important information to retain. The ASB asked the task force to consider the extent of the guidance to include and why the international standards are silent on such reporting.

6. Auditor's Reports – Special Reports

Ms. Jones, Chair of the Special Reports Task Force, and Maria Manasses, member of and staff to the Task Force, led a discussion of the following proposed SASs:

- *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
- *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- *Engagements to Report on Summary Financial Statements.*

Special Purpose Frameworks

With regard to the issues presented in April, the ASB reconfirmed its agreement with the following:

- The scope of the proposed SAS (extant paragraph .01 (a), (d) and (e)).
- The applicability of the standard to the four (and only the four) financial reporting frameworks (cash, tax, regulatory, contractual).
- The elimination of the definition and use of the term OCBOA. However, the ASB will discuss this matter with the Accounting and Review Services Committee (ARSC) and depending on ARSC’s position may include a statement that special purpose frameworks can be referred to as OCBOA.
- The resulting elimination of the category of “a definite set of criteria having substantial support that is applied to all material items appearing in financial statements, such as the price-level basis of accounting.”
- Reporting on financial statements prepared in accordance with the cash and tax bases of accounting should remain consistent with current practice (one opinion, an alert stating that the basis of accounting is not GAAP, and no restriction). The ASB did recommend modifying the alert language to state “a basis of accounting other than GAAP.”
- Reporting on financial statements prepared in accordance with the regulatory or contractual bases of accounting should require a dual-opinion on GAAP. The ASB did not discuss the level of effort required to support a dual-opinion on GAAP.
- To include the additional requirements and application guidance related to the acceptability and description of the applicable reporting framework and fair presentation.

The ASB also agreed that:

- The cash, tax, regulatory and contractual bases of accounting are fair presentation frameworks and that the proposed SAS need not address compliance frameworks.
- Financial statements prepared on a basis of accounting prescribed in an agreement or regulatory provision that results in an incomplete presentation but one that is otherwise GAAP or OCBOA (AU 623 paragraphs .23-.26) need not be separately dealt with in the proposed SAS, as the requirements pertaining to OCBOA are properly addressed by the proposed SAS and the proposed SAS does not apply to GAAP presentations. However, the ASB discussed whether to include an example emphasis of matter paragraph in the auditor’s reports standards when the financial statements are an incomplete GAAP presentation. This will be discussed further by the Auditor’s Reports Task Force.
- Financial statements prepared on a basis of accounting prescribed in an agreement that results in a presentation that is not GAAP or OCBOA (AU 623 paragraphs .27-.30) is properly addressed by the proposed SAS and need not be separately dealt with.

- Reporting on financial statements prepared in accordance with a contractual basis of accounting should require a description of the purpose for which the financial statements are prepared and a restriction as to use.
- The additional requirements pertaining to the use of a specific layout or wording in the auditor's report that is required by law or regulation.
- The proposed SAS will supersede AU 544 and that the guidance therein need not be specifically carried forward to the proposed SAS.
- The Task Force proposals relating to the interpretations are appropriate.

Single Financial Statements & Elements

With regard to the issues presented in April, the ABS agreed with the Task Force to:

- Align the proposed SAS with ISA 805 and therefore, address specific elements, accounts or items, as well as single financial statements in the proposed SAS.
- Maintain the requirement in extant paragraph 15(b)(1) relating to the reference to the auditor's report on the complete set of financial statements only for specific elements (and not single financial statements). This is consistent with the extant standard.
- Require a separate report in an audit of a single financial statement or a specific element of a financial statement.
- Include, as a requirement, the guidance in extant paragraph 16, which states: "If a specified element, account, or item is, or is based upon, an entity's net income or stockholders' equity or the equivalent thereof, the auditor should have audited the complete financial statements to express an opinion on the specified element, account, or item." However, the ASB asked that clarification be provided with respect to what an "audit" entails. In this regard, the auditor would not have been required to issue an audit report, but would have needed to obtain sufficient appropriate audit evidence to do so.

The Task Force was also requested to clarify paragraph 16 of the proposed SAS, which addresses including in the same auditor's report an unmodified opinion on a single financial statement or on a specific element when the auditor expresses an adverse opinion or disclaims an opinion on the entity's complete set of financial statements as a whole. Clarification is necessary because, as stated above, the ASB agreed to require a separate report when reporting on a single financial statement or an element.

Summary Financial Statements

With regard to the issues presented in April, the ASB agreed with the Task Force to:

- Align the proposed SAS with ISA 810, *Engagements to Report on Summary Financial Statements*, and allow reporting on summary financial statements for non-issuers.
- Exclude and eliminate the requirements and guidance in the extant standard on reporting on selected financial data.
- Use the term summary financial statements in lieu of condensed financial statements.
- Exclude from the proposed SAS the reference to law or regulation and the related additional requirements in ISA 810 as they relate to engagement acceptance, and also exclude the requirements in paragraphs 10 and 11 of ISA 810 with respect to wording in the report prescribed by law or regulation.

- Eliminate the optional report language in ISA 810 and prescribe one method to report on summary financial statements; and in this regard, use the phrase “consistent, in all material respects” with slight modification to incorporate the concept that the opinion is based on the audited financial statements from which the summary financial statements are derived.
- Exclude from the proposed SAS the requirement in paragraph 15 of ISA 810 and the related application material with respect to an addressee that may differ from the addressee on the auditor’s report on the financial statements.
- Include an additional requirement relating to comparatives when the summary financial statements contain comparatives that were not reported on by the auditor or another auditor.
- Remove the requirements and guidance pertaining to auditor association with summary financial statements into AU section 504, Association With Financial Statements, or its equivalent. The Auditor’s Reports Task Force will consider this matter.

The ASB also agreed that the guidance in paragraphs A4 through A8 of the proposed SAS with respect to criteria is sufficient, particularly with respect to criteria established by management, and that additional guidance need not be provided on how management might disclose the criteria they established for the preparation of the summary financial statements. With respect to the report examples, it was agreed that the reports will be modified to remove references to generally accepted accounting principles (GAAP), as GAAP does not set criteria for summary financial statements.

The Task Force also agreed to discuss the dating of the auditor’s report with AICPA legal counsel, particularly with respect to the auditor’s responsibilities for subsequent events. The Task Force is to consider counsel’s advice in determining whether to require the same date as the auditor’s report, or if a later date will be allowed, whether any representations need to be obtained from management and how such representations affect the auditor’s responsibilities for subsequent events on the audited financial statements.

With regard to the audited financial statements, the ASB agreed that the audited financial statements should accompany the summary financial statements. This is required for non-issuers under the extant standard with respect to selected financial data.

Other, more specific paragraph-level comments were also provided.

7. Auditor’s Reports – Research

The ASB is sponsoring four teams who are performing research on auditor’s report. Professor Taylor, chair of the Auditor’s Reports Research Task Force, introduced the first of these teams. Professors Glen Gray, Ted Mock and Jerry Turner presented the results of their research to the ASB.

8. Group Audits

Mr. Dohrer, chair of the Group Audits Task Force, led the ASB in a discussion of the issues raised in the agenda material and of the proposed SAS, *Audits of Group Financial Statements (Including the Work of Component Auditors)*.

The ASB considered the issues and directed the Task Force to:

- Change language used regarding “full” and “divided” responsibility to “make reference to the report of the component auditor” and “assume responsibility for the work of the component auditor.” This is more consistent with the language in extant AU 543 (which only uses the word “divide” once).
- Revise references to AU sections to refer to proposed clarified SASs.
- Paragraph 3, revert to ISA language.
- Par 9, reorder objectives so that “communicate” is second, “obtain evidence” is third, and “determine whether to make reference” is third.
- Par 10, revise the definition of “component auditor” and move the current definition into application material.
- Par 17 revise wording to include consideration of the extent of use of the component auditor’s work, and whether reference will be made in the report, as discussed in paragraphs 23-27.
- Par. 24, address situation where component is using a different financial reporting framework and include considerations for governmental entities.
- Par. 33, consider whether to add that an component that is significant due to risk of material misstatement is not of individual financial significance. If so, should definition be changed?
- Par. 34, consider how to better differentiate between (b) and (c).
- Paragraph A5, add that “as quantitative size of a component increases, so too does the likelihood that the risk increases.” Note that in reviewing the standard, this is already stated as the first sentence in the paragraph.
- Par. A46, revise to address requirement included in application material.
- Par A40, consider adding reference to peer review reports.
- Par A66 (A67), clarify “this work” refers to.
- Par A67 (A68), delete “adapted as necessary in the circumstances” and change “a review of” to “inquiries and analytical procedures related to”
- Par A54c (A55) update to incorporate reference to performance materiality and A59 (A60).
- Par A59 (A60) add reference to AU section 312 to make clear where requirement originates.
- Include discussion of component materiality in exposure draft materials.

The task force will consider the issues raised and bring a revised draft to the ASB in July.

9. Audit Evidence – Selected Items

Due to time constraints, this item was not discussed at any length or in any depth. Mr. Winstead, chair of the Audit Evidence – Selected Items Task Force, quickly reviewed the issues presented in the agenda material for a proposed SAS, *Audit Sampling*. This agenda item will be brought to the ASB meeting in June 2009.

10. Overall Objectives and Proposed Preface

This agenda item was not discussed.

The meeting adjourned at 12:40pm.

Appendix

ASB Meeting Schedule

June 22-25, 2009	Boston	
July 27-30, 2009	San Diego	
August 24-27, 2009	Nashville	
October 26-29, 2009	Arizona	
Jan. 11-14, 2010	Florida (Amelia Island)	
May 3-6, 2010	TBD	
June 21-24, 2010	TBD	
July 26-29, 2010	TBD	
August 23-26, 2010	TBD	
October 12-14, 2010	TBD	3 day meeting
January 11-13, 2011	TBD	3 day meeting