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AUDITING STANDARDS BOARD (ASB) MEETING

August 23-26, 2010

Denver, CO

MEETING ATTENDANCE

ASB Members

Darrel Schubert, *Chair*

Ernie Baugh

Sheila Birch

Brian Bluhm

Rob Chevalier

Jacob Cohen

David Duree

Charles Frasier

Andy Mintzer

David Morris

Kenneth Odom

Thomas Ratcliffe

Brian Richson (via phone,
8/23 and 8/26)

Randy Roberts

Tom Stemplar

Mark Taylor

Steven Vogel

Phil Wedemeyer

Megan Zietsman

AICPA Staff

Mike Buddenbeck, *General Counsel & Trial Board*

Linda Delahanty, *Audit & Attest Standards*

Mike Glynn, *Audit & Attest Standards* (8/23-8/25)

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards* (8/23-8/25)

Chuck Landes, *Audit & Attest Standards* (8/23-8/25)

Richard Miller, *General Counsel & Trial Board* (8/23-8/25)

Judith Sherinsky, *Audit & Attest Standards* (8/23-8/25)

Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Jim Dalkin, *GAO*

Julie Anne Dilley, *PricewaterhouseCoopers LLP*

John Fogarty, *Deloitte & Touche LLP* (8/25-8/26)

Diane Hardesty, *Ernst & Young LLP*

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Jen Haskell, *Deloitte & Touche LLP*

Jan Herringer, *BDO Seidman LLP*

Lindsay King, *KPMG LLP*

Maria Manasses, *Grant Thornton LLP*

Dan Montgomery, *Ernst & Young LLP*

Mike Neller, *KPMG LLP*

Mark Nichols, *Mayer Hoffman McCann P.C.* (8/23)

Marc Panucci, *PricewaterhouseCoopers LLP* (8/24-8/25)

Christian Peo, *SEC*

Kurt Pany

Thomas Hackney, *GAO* (8/26)

Chair's Report

Mr. Schubert and Mr. Landes updated the ASB on items of interest.

Mr. Dalkin updated the ASB on the issuance of the exposure draft of a revised Yellow Book.

The ASB unanimously approved the highlights of the July meeting.

AGENDA ITEMS PRESENTED AT MEETING

1. Omitted Procedures

Ms. Birch, Chair of the Omitted Procedures Task Force (Task Force), asked the ASB to vote to ballot proposed SAS *Consideration of Omitted Procedures After the Report Release Date* for issuance as a final standard, as had been agreed at its July 2010 meeting. After discussion of a few editorial comments, the ASB voted unanimously to ballot the proposed SAS for issuance as a final clarified SAS.

2. Specific Items

Mr. Art Winstead led a discussion of the proposed SAS *Audit Evidence—Specific Considerations for Selected Items*. The objective of the presentation was to discuss revisions to the proposed standard and vote to issue it as a final standard.

The following is a summary of the major issues discussed.

Risk Based Approach— At its June 2010 meeting, the ASB discussed the issue of an auditor using a risk based approach to decide whether or not to send out legal letters. Paragraph 18 requires the auditor to seek direct communication with an attorney based on the assessment of risk of material misstatement. This is contrast to the extant AU section 337 which contains a presumptive requirement of the auditors to send out attorney letters in all audits. Some ASB

members disagreed, (given the U.S. litigious environment) with the notion of using a risk approach in deciding whether or not to send out attorney letters. Other ASB members supported the risk based approach, (as did the majority of responders to the ED). In supporting the risk based approach, ASB members argued that creating a presumptive requirement to send out attorney letters would impose an onerous requirement for some auditors. There was no consensus reached by the ASB at the June ASB meeting, and the ASB directed the Task Force to further look into the issue. The Task Force developed a proposal in which it made some revisions to better link paragraph 18 to paragraph 16 (which address the auditor's procedures to identify litigation, claims or assessments), added an application guidance paragraph to provide examples of when the auditor does not need to send out a legal letter (A40), and reinstated paragraph 19 which requires the auditors to document the basis not to seek direction communication with the entity's legal counsel. After discussion and revisions to paragraph 18 and A40, the ASB agreed with the Task Force's proposal.

Disposition of Interpretations—At its June meeting, the ASB directed the Task Force to revisit the disposition of the AU section 9337 interpretations. The ASB agreed with the proposals developed by the Task Force to dispose of the interpretations.

Letter of Inquiry to In-House Counsel—The ASB discussed the issue of seeking direct communication with in-house counsel. Paragraph 19 of the proposed SAS requires the auditor to seek direct communication with in-house, where appropriate. This requirement was added by the Task Force subsequent to the exposure draft. Some members argued that the inclusion of the paragraph i) elevates the auditor's responsibility from the extant guidance that addresses in-counsel and ii) the change from the exposure draft might require re-exposure because the changes were beyond from what was included in the exposure draft. After discussion, the ASB decided to proceed with the vote for issuance as a final standard, but directed the staff to look further into the issues raised by members and prepare a memorandum to explain the basis for conclusion.

The ASB voted unanimously to ballot the SAS for either issuance as a final standard or re-exposure if re-exposure is considered necessary.

Subsequent to the ASB meeting, the staff, in consultation with the chair of the ASB, reached the conclusion that the proposed SAS does not require re-exposure. The basis for that conclusion, which was included with the ballot sent to the ASB for approval, follows:

The ASB voted to ballot **Proposed Statement on Auditing Standards, Audit Evidence—Specific Considerations for Selected Items**. In doing so, the ASB approved paragraph .19 to read as follows:

In addition to the direct communications with the entity's external legal counsel referred to in paragraph 18, the auditor should, in cases where the entity's in house counsel has the responsibility for the entity's litigation, claims, and assessments, seek direct communication with the entity's in-house counsel through a letter of inquiry similar to the letter referred to in paragraph 18. Audit evidence obtained from in house counsel in this manner is not however a substitute for the auditor seeking direct communication with entity's external counsel as described in paragraph 18.

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This paragraph proposes a requirement to communicate with in-house counsel, a requirement that was not in the original Exposure Draft. As a result, some ASB members inquired whether adding such a requirement would result in re-exposing the proposed standard.

While the ASB's operating procedures do not contain criteria to address re-exposure, ASB staff generally believe that re-exposure should be considered when the ASB agrees to add a requirement that was not originally exposed and the proposed added requirement a) is not in response to comments received during the exposure period or b) is not found in the extant standard(s) or c) is expected to change current practice.

In researching the issue, staff acknowledges that the ED, similar to the ISA standard, had no requirement relating to inquiry of in-house counsel other than paragraph 16(a) which mentioned inquiring of in-house counsel as a risk assessment procedure. Additionally, the ED did not seem to address certain interpretations (although the proposed SAS was very similar to the ISA).

In looking at existing AU 337, ***Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessment***, paragraph AU 337.06 does not make a distinction between internal or external lawyers. Paragraph 6 states the following:

“...Accordingly, the auditor should request the client’s management to send a letter of inquiry to those lawyers with whom they consulted concerning litigation, claims, and assessments.”

Additionally, interpretation #8 AU 9337.24 provides some guidance about the role of in-house counsel and seems to make it clear that paragraph 6 intended to cover in-house counsel. AU 9337.26 states the following:

“Audit inquiry letters should be sent to those lawyers, which may be either inside counsel or outside lawyers, who have the primary responsibility for, and knowledge about, particular litigation, claims, and assessments.”

The matter of adding this requirement surfaced during the comment letter process because:

- A responder (GT) said that we should consider incorporating the interpretations into the SAS. Interpretation # 8 addresses in-house counsel
- Responders (Washington State and Montana) commented that paragraph 18 inappropriately limits the auditor’s request for legal letters to external counsel. This is because governmental entities often have other state agencies which handle their legal matters.

In consultation with ASB members, the Task Force concluded that this issue is not limited solely to governmental entities as other non issuer entities also have in-house counsel. Therefore, the Task Force decided and the ASB concurred to add the requirement to address in-house counsel considerations.

Because it seems clear that the extant guidance requires auditors to confirm with in-house counsel, and because based on the ASB discussion sending an inquiry letter to in house counsel would not be a change in practice; and, the proposed requirement is indirectly linked to the comments received, it is the opinion of ASB staff that the inclusion of paragraph 19 in the proposed SAS does not require re-exposure.

Ballots received noted no disagreements with the conclusions reached by staff.

3. Specialists

Mr. Wedemeyer led a discussion of the proposed SAS *Using the Work of an Auditor's Specialist* (Redrafted). The objective of the presentation was to discuss revisions to the proposed standard and vote to issue it as a final standard.

The following is a summary of the major issue discussed.

Specialists Responsibilities

At the June 2010 ASB meeting, the ASB discussed the possible consequences that paragraph 12 of the proposed SAS could have on U.S. practice. No consensus was reached at that time, and the ASB directed the Task Force to look further into the issue. Paragraph 12 establishes a requirement of the auditor to evaluate whether the methods and assumptions of the auditor's specialist are *reasonable*. In contrast, paragraph 12 of extant AU Section 336 requires the auditor to obtain an understanding of the methods and assumptions used by the auditor's specialist; the auditor then uses that understanding and the results of other procedures in considering whether the findings of the specialist are *unreasonable* in the circumstances. Some ASB members argued that paragraph 12 of the proposed SAS is a higher standard than extant AU Section 336. The Task Force accepted that view. But, in consulting with an IAASB member, it was pointed out that the auditor's responsibilities with regards to the methods and assumptions of the auditor's specialist are consistent with the direction taken in the other standards (see paragraph 15 of clarified SAS *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*). The Task Force proposed no changes to paragraph 12 of the proposed SAS.

To clarify that the auditor's responsibilities with regards to the evaluation of the methods and assumptions of the auditor's specialist do not encompass assuming responsibility for those methods and assumptions, the Task Force made edits (taken primarily from extant paragraph 12) to paragraph A39.

The ASB agreed with the Task Force's conclusion that paragraph 12 of the proposed SAS would elevate the auditor's responsibilities from the extant AU section 336. The ASB also agreed that the requirement paragraph 12 should be worded using the AU section 336 construct "the auditor should evaluate whether the methods and assumptions of the auditor's specialists *are unreasonable*."

However, some ASB members expressed a concern that the requirement to evaluate the methods and assumptions of the specialist would expand the auditor's responsibilities beyond the auditor's requirement to evaluate the specialist's methods and assumptions in relation to the evaluation of the specialist's findings and conclusions. These ASB members noted that the requirement should clearly reflect the auditor's responsibilities, and the requirement to evaluate the specialist's methods and assumptions should be limited to the audit procedures performed to evaluate the specialist's findings and conclusions.

After discussion, the ASB reached no consensus and directed the Task Force to look further into the issue and to develop a proposal to address the issues raised by the ASB.

4. Auditors Reports

Mr. Montgomery, Chair of the Auditor's Report Task Force (Task Force), led a discussion of 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*

The objective of the presentation was to discuss revisions to the proposed standards and vote to issue them as final standards.

With regard to the issue presented in Agenda Item 4, the ASB agreed with the Task Force that the proposed SAS should not allow the option of adding the phrase *whether due to fraud or error* in the auditor's responsibilities section of the auditor's report relating to the financial statements being free of material misstatement.

The ASB also directed the Task Force to—

Forming an Opinion and Reporting on Financial Statements

- Consider clarifying paragraphs 5–7 to better indicate when this SAS is applicable.
- Consider including in paragraphs 27-28 that management is responsible for the notes to the financial statements.
- Clarify the auditor's responsibility regarding comparative information that is presented but not covered by the auditor's opinion.
- Add transition wording to the second sentence in paragraph 51.
- Delete the last sentence in paragraph A27.
- Delete footnote 18.
- Consider additional subheadings for paragraphs A47-A48
- Revise wording in paragraph A55 to clarify that clearly differentiated information can be marked as unaudited.
- Add a lead in and fix the wording in exhibit 3
- Various editorial changes

Modifications to the Opinion in the Independent Auditor's Report

- Add missing sentence in footnotes.
- Consider expanding description of qualification paragraph in Illustration 5.
- In Illustration 8, under auditor's responsibilities, add the specific statements for which the auditor has obtained sufficient appropriate audit evidence to provide a basis for the opinion.
- Various editorial changes.

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

- Fix the references to exhibits 2 and 3 in paragraphs 2 and A1
- Add a lead in sentence to paragraph A2 to reference to exhibit 2
- Reword paragraph A3 to clarify not to include more information in an EOM paragraph than what is in the notes.
- Change “is” to “may be” in paragraph A4.
- In illustrations 1 and 3, consider the wording of the emphasis of matter paragraph to better reflect U.S. disclosures.
- Change illustration 2 to be a comparative presentation.
- Change Illustration 3 to be a single year presentation.
- Move reference of SAS 119 from exhibit 2 to exhibit 3.

The ASB voted unanimously to ballot these SASs for issuance as final standards.

5. Special Reports – Single Financial Statements

Mr. Chevalier, Chair of the Special Reports Task Force, led the ASB in a discussion of proposed SAS *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*. The objective of the presentation was to discuss revisions to the proposed standard and vote to issue it as a final standard.

With regard to the issue presented in August 2010, the ASB agreed to the additional requirements in the proposed SAS that address the guidance provided by paragraphs .23 through .26 of AU section 623, *Special Reports*, related to financial statements prepared on a basis of accounting prescribed in a contractual agreement or regulatory provision that results in an incomplete presentation but one that is otherwise in accordance with GAAP. However, the ASB requested the following:

- Include an additional requirement related to acceptance considerations, particularly with regard to the acceptability of the framework.
- Include additional application guidance that assists in differentiating between reporting on incomplete GAAP presentations and presentations prepared in accordance with a regulatory basis of accounting.
- Include a report that illustrates the reporting requirements.

Other substantive comments received included:

- Paragraph 7, move paragraph 7 to precede paragraph 6.
- Paragraph 19, clarify that the modification of the opinion relates to the opinion on the complete set of financial statements.
- Paragraph 23, change “states” to “indicates” that the presentation is not intended to be a complete presentation of the entity’s assets, liabilities, revenues or expenses.

- Illustration 4, change the example from a report on a schedule of liability for incurred but not reported claims in an insurance portfolio to a report on a schedule of royalties applicable to engine production.

The ASB voted unanimously to ballot the SAS for issuance as a final standard.

6. Special Reports – Summary Financial Statements

Mr. Chevalier, Chair of the Special Reports Task Force, led the ASB in a discussion of proposed SAS *Engagements to Report on Summary Financial Statements*. The objective of the presentation was to discuss revisions to the proposed standard and vote to issue it as a final standard.

With regard to the issues presented in August 2010, the ASB agreed to:

- Clarify the applicability of the proposed SAS to only apply to summary financial statements presented outside of the complete set of financial statements or in a separate document. That is, the SAS will not apply to comparative information or selected financial data.
- Modify the report language to more clearly indicate the auditor's responsibility to express an opinion on the summary financial statements, but not to modify the report language to include more caveats with regard to the omission of disclosures.
- Eliminate the requirements that allow reporting on summary financial statements in an *other matter* paragraph in the auditor's report on the complete set of financial statements, the related application material and Illustration 5, because they are not necessary based on the revised applicability of the proposed SAS.

Other substantive comments received included:

- Paragraph 1, include the type of opinion expressed in an engagement to report on summary financial statements.
- Paragraph 10, include a reference to paragraph 9(c) in addition to paragraph 9(b) as both relate to obtaining the agreement of management.
- Paragraph 16, clarify that withdrawal pertains to the engagement to report on summary financial statements.
- Paragraphs 29 and 30, combine to clarify the auditor's responsibility for material inconsistencies and material misstatements of fact.

The ASB voted unanimously to ballot the SAS for issuance as a final standard.

7. Terms & Representations

Mr. Fogarty led the ASB in a discussion of proposed Statements on Auditing Standards (SAS), *Terms of Engagement* and *Written Representation*. The objective of the presentation was to discuss revisions to the proposed standards and vote to issue them as final standards.

The following is a summary of the major issues discussed.

Terms of Engagement

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- To avoid giving the impression that an annual audit is a continuation of the previous year's engagement and to reinforce that each annual audit is a separate engagement (this is relevant for purposes of statutes of limitations), the wording in paragraph 3 was changed from "accept or continue an audit engagement" to "accept an audit engagement for a new or existing audit client" and *recurring audit* was defined as "An audit engagement for an existing audit client for whom the auditor performed the preceding audit".
- ISA 210 includes application material that states that preparation of the financial statements includes fair presentation. This was necessary because not all financial reporting frameworks used outside the United States are fair presentation frameworks. The ASB has decided that all financial reporting frameworks in the United States are fair presentation. Accordingly, GAAS may either include application material that states preparation includes fair presentation, or may use the phrase *preparation and fair presentation* consistently throughout GAAS. The ASB concluded to use the phrase *preparation and fair presentation* consistently throughout GAAS and, accordingly, deleted paragraph A13 from the proposed SAS.
- To address situations in which only those charged with governance sign the engagement letter, guidance was added to paragraph A20 stating that "When the agreement on the terms of engagement is only with those charged with governance, nonetheless in accordance with paragraph 6 the auditor is required to obtain management's agreement that it acknowledges and understands its responsibilities."
- The ASB directed the Task Force to make the following changes:
 - Add "unless the context suggests otherwise" to paragraph 5
 - Par. 7 and A19 – change reference to "regulation" to "the regulator" to encompass situations where the regulator will accept a disclaimer even though the regulations may not explicitly permit a disclaimer.
 - Move paragraph 11, addressing recurring audits, to follow paragraph 12, addressing initial audits, and paragraphs A27 and A28 to follow A34.
 - Par. A26, change "audit engagements" to "the appointment of the auditor"
 - Various other insignificant editorial changes

Written Representations

- Par 25 and 26 order reversed and added
- The ASB discussed the requirement to, compared to the requirement if other representations are not provided. The order of paragraphs 25 and 26 was reversed to make clear that the requirement to disclaim applies only when the representations required by paragraphs 10-11 are not provided or are considered not reliable, and the requirement to take appropriate actions applies to other requested representations. Reference to the representations required by paragraphs 12 through 18 was added to application material in paragraph A34 to emphasize the importance of these required representations.
- The ASB directed the Task Force to make the following changes:
 - Add "unless the context suggests otherwise" to paragraph 8
 - Par. 7 change "for purposes of this SAS" to "in this context" (aligns with ISA)

- Par. 13 and par. 15 added “by management” to avoid giving the impression the auditor is responsible for financial statements disclosures.
- A9 added “or summaries of actions of recent meetings for which minutes have not yet been prepared”
- Various other insignificant editorial changes

The ASB voted unanimously to ballot the SASs for issuance as a final standard.

8. Association with Financial Statements

Mr. Montgomery, Chair of the Auditor’s Reports Task Force (Task Force), led the ASB in a discussion of revisions proposed to clarify AU section 504, *Association With Financial Statements*. The objective of the presentation was to discuss withdrawal of AU section 504 and proposed amendments to be made to various SASs to address the content of AU section 504.

The ASB agreed to vote for the withdrawal of AU section 504 in conjunction with the vote for exposure of the proposed amendments. These amendments are anticipated to be brought to the ASB in January 2011 to vote for exposure as an omnibus SAS. The withdrawal of AU section 504 would correspond with the effective date of the clarified standards.

The ASB reviewed the proposed amendment to clarified SAS *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* and directed the Task Force to:

- Broaden the amendment to paragraph 3 to encompass all GAAS, not just financial statements.
- Revise the last sentence of paragraph 3 to conform to the title of the proposed SSARS *The Use of the Accountant’s Name in a Document or Communication Containing Unaudited Financial Statements That Have Not Been Compiled or Reviewed*
- Ensure that the guidance in paragraph A19 is consistent with clarified SAS *Terms of Engagement*
- Revise the proposed amendment to paragraph 15 to apply to all engagements performed under GAAS.
- Change “auditor” to “accountant” in paragraph A18 and change “opining” on the financial statements to “reporting.”
- Delete “as required by the law or regulation” in paragraph A19.

9. Consistency

Mr. Montgomery, Chair of the Auditor’s Reports Task Force (Task Force), led the ASB in a discussion of proposed SAS *Consistency of Financial Statements*. The objective of the presentation was to review comments received on exposure of, and resultant revisions to, the proposed SAS.

With regards to the issues presented:

Responses to Issues for Consideration

Question 1 — The ASB agreed with the changes to paragraph 3.

Question 2 — See discussion of issue 2 following.

Question 3 — The ASB agreed with the Task Force not to make any additional changes to the SAS. Rather, the ASB believes some of this guidance may be more appropriately placed in corresponding audit and accounting guides.

Issues for ASB Discussion

Issue 1 — The ASB affirmed the use of “principles” throughout this SAS.

Issue 2 — The ASB directed the Task Force to consider the wording in paragraph 6 to ensure it covers the periods intended.

Issue 3 — The ASB directed the Task Force to include the guidance from extant AU 420.20 as application material in the SAS.

Issue 4 — The ASB supported keeping the requirements in paragraphs 14-15.

Issue 5 — The ASB agreed with the Task Force not to change paragraph A4.

Issue 6 — The ASB agreed with the Task Force not to change paragraphs A4 and A6.

Issue 7 — The ASB agreed with the Task Force not to add any additional illustrations.

Issue 8 — The ASB agreed with the Task Force that the word “material” is not necessary.

The ASB also directed the Task Force to—

- Reinsert deleted wording in paragraph 3.
- Consider defining the word “adequate” in paragraph 8c.
- Delete all footnotes referring back to footnote 2.

The Task Force will bring a revised draft to the ASB in October 2010 for a vote to ballot the SAS for issuance as a final standard.

10. Reports On Accounting Principles

Mr. Ratcliffe, Chair of the AU 625 Task Force (Task Force), led the ASB in a discussion of proposed SAS *Reports on Application of Requirements of an Applicable Financial Reporting Framework*. The purpose of the presentation was to review comments received on exposure of, and resultant revisions to, the proposed SAS.

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

- In the Definitions sections of the proposed SAS, the ASB directed the Task Force to
 - delete the definition of *advisory accountant* and the related parenthetical references to the advisory accountant, and note in the definition of *reporting accountant* that a reporting accountant who is engaged to provide accounting and reporting services to a specific entity on a recurring basis is sometimes referred to as an advisory accountant. The ASB believes that this is more accurate, and is

also concerned that a separate definition for advisory accountant could give readers the mistaken belief that a continuing accountant could be an advisory accountant.

- add the phrase “or financial reporting issue” to the definition of *hypothetical transaction* so that the description of *specific transaction* is appropriately encompassed within the definition.
- move the definition of *type of report* to an application and other explanatory paragraph, and reference it to paragraph 1(b).
- The ASB commented that the ED seems to use the words “conclusion” and “professional judgment” inconsistently. The ASB directed the Task Force to consider replacing the word “conclusion” with the words “professional judgment” throughout the proposed SAS.
- The ASB directed the Task Force to delete paragraph A1. Paragraph A1 attempted to provide application guidance to paragraph 4(a), which states that this proposed SAS “does not apply to a continuing accountant with respect to the specific entity whose financial statements the continuing accountant has been engaged to report on.” The ASB believes paragraph 4(a) is clear as written and does not need corresponding application guidance.
- The usefulness of paragraph A2 was debated at length. Paragraph A2 provides application guidance to the requirement in paragraph 9 that “the reporting accountant should not accept an engagement to issue a written report on hypothetical transactions.” As written, paragraph A2 can be applied to transactions that are permitted as well as those that are not. Therefore, the ASB directed the Task Force to revise the paragraph so that it is clear that there is no continuing accountant with whom to consult.
- The ASB directed the Task Force to delete the last sentence, “However, broader distribution may be required by open records laws in the governmental environment, which would make such reports a matter of public record.” from paragraph A7. The restriction of the use of the reporting accountant’s written report, among other restrictions, will be addressed in the proposed SAS that the Restricted Reports Task Force is developing.

In addition, various other less significant and largely editorial changes were suggested. The Task Force will bring a revised draft to the ASB in October 2010 for a vote to ballot the SAS for issuance as a final clarified standard.

11. Restricted Use Reports

Mr. Wedemeyer, Chair of the Restricted Use Report Task Force, led a discussion of issues related to the redrafting and revision of AU section 532, *Restricting the Use of an Auditor’s Report*. The Task Force presented a proposed SAS, *Alerting Readers as to the Intended Use of*

an Auditor's Written Communication. With regard to the issues presented in Agenda Item 11, the ASB:

- Generally agreed with the elimination of the terms “restricted use” and “by-product reports” in clarifying extant AU section 532, *Restricting the Use of an Auditor's Report*. The Board also generally agreed with reference to an “alert as to the intended use of the auditor's written communications” as a replacement for “restricted use” and reference to “matters identified by the auditor during the course of the engagement that are not the primary objective of the engagement” as a replacement for “by-product” reports.
- Considered whether “by-product reports” that are required to be made publicly available as part of a broader objective should continue to include an alert as to their intended use solely by specified parties. The proposed SAS indicates that an alert is not required in such circumstances. The ASB did not come to an agreement on this matter.

In addition, the ASB continued to discuss issues involved in considering whether to retain the requirement in AU section 532 and the proposed SAS *Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* to include a second opinion on conformity with GAAP when the financial statements are prepared in accordance with the regulatory basis of accounting and are for general use. It was noted that the ASB has the authority to determine how an auditor should report on criteria other than GAAP, while also considering the requirements for alert language that indicates the intended use of the auditor's written communication solely by specified parties. The ASB has the authority to conclude that certain regulatory bases of accounting that are subjected to due process or some other criteria, may be appropriate for general use, whereby reporting would be consistent with the cash and tax bases of accounting.

It was noted that the proposed SAS may potentially affect several other SASs (some of which have been finalized and others are in exposure or are being considered by the ASB). The proposed SAS identifies in an exhibit most, but not all, of the other SASs that will be affected.

Other substantive comments received included the following:

- Paragraph 3, modify the effective date so that the proposed SAS does not become effective prior to the other clarified SASs.
- Paragraph 4, consider whether the auditor's objective could be further clarified and streamlined.
- Paragraph 6, clarify that a written communication only includes auditor's reports and other written communications by removing the examples of such other written communications and including them in the application and other explanatory material.
- Paragraph 8c, reinstate the phrase “and should not be” within the alert language.
- Paragraph A2, clarify that the alert language, when not required, may be included “when the auditor considers it necessary to do so.”
- Paragraph A8, align with AU section 532 whereby a single combined report that includes both a general-use and a restricted use communication would be entirely restricted as to use.

12. Not used

13. **Quality Control**

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Ms. Birch, Chair of the Quality Control Task Force (the Task Force), led the ASB in a discussion of proposed SAS *Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*. The purpose of the discussion was to discuss revisions to the proposed standard and vote to issue it as a final standard.

After discussion about placement, the sentence “In fulfilling this responsibility, the engagement partner may delegate the execution of certain procedures to, and rely upon the work performed by, other members of the engagement team, and may rely upon the firm’s system of quality control.” was added to paragraph 10 as essential guidance.

Minor editorial changes were made to various paragraphs.

The ASB voted 18-1 to ballot the standard for issuance as a final standard. Mr. Mintzer dissented to the issuance of the SAS. Specifically it is his view that auditing standards should not include requirements or application guidance for engagement quality control reviewers (EQCR) as EQCR are not part of the audit engagement team; requirements and application guidance for EQCR are appropriately included in Statements of Quality Control Standards.

The meeting adjourned at 1 p.m. on Thursday, August 26, 2010.