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Auditing Standards Board (ASB) meeting, May 3-5, 2011, Las Vegas, Nevada; Highlights (ASB) meeting, May 3-5, 2011

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AUDITING STANDARDS BOARD (ASB) MEETING

May 3-5, 2011

Las Vegas, Nevada

MEETING ATTENDANCE

ASB Members

Darrel Schubert, *Chair*

Ernie Baugh

Brian Bluhm

Rob Chevalier

Sam Cotterell

Jim Dalkin

David Duree

Ed Jolicoeur

David Morris

Kenneth Odom

Tom Ratcliffe

Brian Richson (by phone 5/4-5/5 only)

Tom Stemlar

Mark Taylor

Kim Tredinnick

Steven Vogel

Phil Wedemeyer

Kurtis Wolff

Megan Zietsman

AICPA Staff

Mike Buddenbeck, *General Counsel & Trial Board*

Linda Delahanty, *Audit & Attest Standards*

Mike Glynn, *Audit & Attest Standards*

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards*

Chuck Landes, *Audit & Attest Standards*

Linda Volkert, *PCPS Technical Issues Committee*

Richard Miller, *General Counsel & Trial Board*

Andy Mrakovic, *Audit & Attest Standards*

Judith Sherinsky, *Audit & Attest Standards*

Observers and Guests

Walt Conn, *KPMG LLP* (5/4 only)

Julie Anne Dilley, *PricewaterhouseCoopers LLP*

Diane Hardesty, *Ernst & Young LLP*

Jen Haskell, *Deloitte & Touche LLP*

Jan Herringer, *BDO Seidman LLP*

Maria Manasses, *Grant Thornton LLP*

Dan Montgomery, *Ernst & Young LLP*

Mike Neller, *KPMG LLP*

Mark Nichols, *Mayer Hoffman McCann P.C.*

Marc Panucci, *PricewaterhouseCoopers LLP*

Julie Valentyn, *KPMG LLP*

Chair's Report

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

Mr. Miller announced his retirement and Mr. Buddenbeck's promotion to the position of General Counsel and Secretary.

The ASB unanimously approved the highlights of the January 2011 meeting and February 2011 conference call.

AGENDA ITEMS PRESENTED AT MEETING

1. Interim Financial Information

Mr. Chevalier, Chair of the Interim Reviews Task Force (Task Force), led a discussion of the proposed *Interim Financial Information* (Redrafted). The objective of the presentation was to discuss comments received on exposure and vote to ballot the SAS for issuance as a final standard.

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

- Add “through performing limited procedures” to the objective
- Refer to “fair presentation” when discussing presentation and preparation of the financial statements
- Limit the requirement to review documentation to “available” documentation
- Add requirements to inquire of management about (1) the identity of, and nature of transactions with, related parties, and (2) changes in related parties or significant new related party transactions
- Specify that management's written representations should be as of the date of the auditor's review report
- Add a requirement (1) for the auditor to take appropriate action when the auditor has concerns about the reliability of the representations or if management does not provide the requested written representations, and (2) for the auditor to withdraw when management does not provide specific written representations; and add application material describing appropriate action
- Delete the words “accompanying the interim financial information” from paragraph 30.
- Add the phrase “to clearly indicate that it is the report of an independent auditor” to the requirement to include the word *independent* in the title of the auditor's review report
- Add a requirement to include the city and state where the auditor practices in the auditor's review report, to be consistent with the requirements for audit reports
- Add requirements addressing how to report when a condensed balance sheet derived from audited financial statements is presented on a comparative basis with the interim financial information
- Clarify that performing certain auditing procedures concurrently with the review applies only when the auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity

- Delete application material addressing the possibility of additional communication requirements relating to an audit
- Add an illustrative review report on comparative interim financial information when the prior period was reviewed by another auditor

In addition, editorial changes were suggested.

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

2. Reporting on Compliance

Mr. Montgomery, Chair of the Auditor's Reports Task Force (Task Force), led the ASB in a discussion of Agenda Item 2, proposed SAS *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (Redrafted). 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, the ASB reaffirmed its position that the auditor should only express negative assurance when no instances of noncompliance are identified and, accordingly, the negative assurance language should not be used when one or more instances of noncompliance have been identified. The ASB also directed that certain editorial changes be made.

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

3. Comfort Letters

Mr. Wedemeyer, Chair of the Comfort Letter Task Force (Task Force), led a discussion of the proposed SAS *Letters for Underwriters and Other Requesting Parties*. The objective of the presentation was to discuss revisions to the proposed standard and vote to issue it as a final standard.

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

- Delete reference to *interim financial information* in the phrase "in connection with financial statements or interim financial information in a securities offering" throughout the proposed SAS.
- In paragraph 12, delete the prohibition against issuing a comfort letter and the reference to another form of letter, retaining the prohibition against expressing negative assurance in the comfort letter in the circumstances described.
- In paragraph 57, move the last sentence regarding compilation reports to application material and add application material noting that the attestation standards do not provide for a review, only an examination or a compilation.
- In paragraph 59, delete the reference to a requirement for updated financial statements, and the related requirement, and revise paragraph 60 accordingly. This paragraph, which permits negative assurance regarding subsequent changes in specified financial statement items only as of a date less than 135 days from the end of the most recent period for

which the auditor has performed an audit or a review, is consistent with PCAOB interim standards.

- In Exhibit B, Example A-1, add a bullet explaining that the auditors are reporting independence under SEC rules and explaining the revisions if the auditors were reporting under AICPA rules, to convey circumstances exist under which auditors may report under AICPA rules in connection with an SEC filing.
- Remove references to capitalization tables from the examples in Exhibit B, since these do not apply to nonissuers.

In addition, editorial changes were suggested.

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

4. Financial Statements Prepared for Use in Another Country

Mr. Conn, Chair of the AU 534 Task Force (Task Force), led a discussion of the proposed SAS *Financial Statements Prepared in Accordance With a Financial Reporting Framework Applicable in Another Country*. The objective of the presentation was to discuss changes made based on comment letters received from constituents.

The following is a summary of the major issues discussed.

The ASB received eight comment letters, which reflected overwhelming support for the proposed SAS as drafted. In the re-exposure draft, the ASB asked respondents to consider the appropriateness of:

- a. the requirement to include an emphasis-of-matter paragraph in the auditor's report when financial statements prepared in accordance with a financial reporting framework generally accepted in another country also are intended for use in the United States; and
- b. the elimination of the concept of limited use.

The respondents indicated agreement, with one exception, regarding the requirement for an emphasis-of-matter paragraph and without exception regarding the elimination of the limited use concept.

The ASB directed the Task Force to clarify the application guidance in paragraph A1 and eliminate the use of "hundreds of potential investors." The Task Force was also directed to further align the illustrative reports with those in the clarified SAS *Forming an Opinion and Reporting on Financial Statements* by including an addressee, auditor's signature, auditor's city and state, and date of the auditor's report, since these are required elements of the report.

A revised draft will be brought to the ASB in July for a vote for final issuance.

5. ASB Strategy

<p>Meeting Highlights ASB Meeting May 3-5, 2011</p>

Mr. Landes reviewed the draft strategic plan, including the members of the task force, and the proposed survey. The ASB will be approving the strategic plan and determining whether to publish it. The ASB discussed asking the task force to consider whether to add a user of assurance services other than the historical audit to the task force, and whether to send the survey to those state societies that generally comment on ASB exposure drafts.

The meeting adjourned at 12:00 p.m. on Thursday, May 5, 2011.