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Auditing Standards Board (ASB) meeting, May 1-3, 2012, Boston, MA, San Juan, Puerto Rico; Highlights (ASB) meeting, May 1-3, 2012

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AUDITING STANDARDS BOARD (ASB) MEETING
May 1-3, 2012
Boston, MA

MEETING ATTENDANCE

ASB Members

Darrel Schubert, *Chair*

Brian Bluhm

Rob Chevalier

Sam Cotterell (5/1-2)

Jim Dalkin

David Duree

Jen Haskell

Ed Jolicoeur

Barbara Lewis

Carolyn McNerney

David Morris

Kenneth Odom (5/1-2)

Don Pallais

Brian Richson

Michael Santay

Kay Tatum

Steven Vogel (5/1-2)

Kurtis Wolff

Absent

Kim Tredinnick

AICPA Staff

Amanda Black, *A&A Publications*

Linda Delahanty, *Audit & Attest Standards*

Amy Eubanks, *A&A Publications*

Mike Glynn, *Audit & Attest Standards*

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards*

Chuck Landes, *Audit & Attest Standards*

Andy Mrakovic, *Audit & Attest Standards*

Richard Miller, *Special Counsel*

Dan Noll, *Accounting Standards (5/2 only)*

Judith Sherinsky, *Audit & Attest Standards*

Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Carly Davis, *KPMG LLP*

Richard Davisson, *McGladrey & Pullen LLP*

Julie Anne Dilley, *PricewaterhouseCoopers LLP*

Diane Hardesty, *Ernst & Young LLP*

Jan Herringer, *BDO USA LLP*

David Johnson, *Baker Tilly Virchow Krause, LLP*

John Keyser, *McGladrey & Pullen LLP*

Maria Manasses, *Grant Thornton LLP (5/2-3)*

Dan Montgomery, *Ernst & Young LLP (5/2 only)*

Marc Panucci, *PricewaterhouseCoopers LLP (5/2-3)*

Mark Schumacher, *KPMG LLP*

Bruce Webb, *McGladrey & Pullen LLP*

Mary Anne White, *PPC*

Megan Zietsman, *Deloitte & Touche LLP*

Chair and Director's Update

Mr. Schubert discussed issues of interest to the ASB, including an overview of a National Standard Setters meeting which he and Mr. Landes attended.

Mr. Landes discussed issues related to COSO and other issues of interest to the ASB.

The highlights of the January 2012 ASB meeting were unanimously approved.

AGENDA ITEMS PRESENTED AT MEETING

1. Going Concern

Mr. Richson, chair of the Going Concern Task Force (the "Task Force"), led the ASB in a discussion of the proposed SAS, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted). The proposed SAS was posted for comment on November 15, 2011 and the comment period ended on January 31, 2012.

The ASB reaffirmed its previous decision to redraft the existing standard in the clarity format, consistent with other clarified SASs, and agreed with the Task Force that providing additional guidance in the proposed SAS, as requested by certain respondents to the exposure draft, is beyond the scope of the project. Communications will be instrumental in making sure the public understands the limited scope of this project, as well as the ASB's intent to undertake a project to develop a new standard that can be applied in the context of differing accounting frameworks and with regard to the ASB's strategy to converge its standards with those of the IAASB.

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

- Define "reasonable period of time" in the definitions section and delete "not to exceed one year beyond the date of the financial statements being audited" from paragraphs 3 and 9.
- Consider after each reference to "the entity's ability to continue as a going concern" whether to add "for a reasonable period of time".
- Add "When the auditor believes there is substantial doubt" to the heading "consideration of management's plans" to clarify when the requirements in paragraph 9 apply.
- Change "will" to "would" in paragraph 9a.
- Move the requirement to obtain written representations to precede the section on consideration of the effect on the auditor's report.
- Flip the order of paragraphs 15 and 16 so that the paragraph addressing disclaimer of opinion is second.
- Paragraph 15 - revise wording to more clearly convey that when disclaiming, a basis-for-disclaimer paragraph is used instead of an emphasis-of-matter paragraph, and the auditor is still required to consider the adequacy of disclosures.
- Paragraph 16 - delete "a departure from the applicable financial reporting framework exists and" and replace "qualified or adverse opinion, as appropriate," with "modified opinion".

- Paragraph 21 - change “If, pursuant to paragraph 9, the auditor believes” to “If the auditor believes, before consideration of management's plans pursuant to paragraph 9,”
- Paragraph A1 - change “ordinarily are” to “are expected to be”
- Add application guidance addressing obtaining written representations in addition to those required by this standard.
- Editorial changes, including consistent reference to “conditions *or* events”

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

2. Attestation Standards

Don Pallais, chair of the Attestation Recodification Task Force, which is redrafting Statements on Standards for Attestation Engagements (attestation standards) in clarity format, led the ASB in a discussion of issues related to the proposed structure and content of the attestation standard that would replace AT 101, *Attest Engagements*, as well as the structure and content of the rest of the re-codified attestation standards. The ASB directed that

- the revised standard include a common concepts section that
 - explains the nature of the attestation standards and explains and contrasts the various types of attestation engagements and
 - establishes the requirements and related application guidance applicable to all attestation engagements.
- separate sections for examination, review, and agreed-upon procedures engagements be developed that would build on the common concepts section. Each of these sections would include performance and reporting requirements and application guidance tailored to the specific type of engagement.
- each subject-matter-specific section discuss all services relevant to the subject matter rather than separating the content by service.
- the revised standard not include the following nonattest services because they do not result in the expression of an independent conclusion or findings regarding the subject matter and do not require independence.
 - compilations of prospective financial statements currently in AT 301, *Financial Forecasts and Projections*.
 - AU-C 915, *Reporting on the Application of the Requirements of an Applicable Financial Reporting Framework*, currently in the clarified auditing standards.

The ASB directed that the Accounting and Review Services Committee be contacted to consider including them in Statements on Standards for Accounting and Review Services.

- the provision in extant AT 101 permitting the practitioner to perform an attestation engagement when the client is someone other than the responsible party be maintained.
- the revised standard require the practitioner to obtain a written assertion from the responsible party in an examination or review engagement. The ASB held open for later

discussion the possibility that such an assertion not be required in an agreed upon procedures engagement.

- the term to be used for the party to whom the practitioner communicates in an attestation engagement may be *those charged with governance*, *the responsible party*, or *the engaging party* depending on the context matter of the communication.
- the revised standard not be overburdened by incorporating all analogous requirements from the clarified auditing standards.
- the revised standard incorporate
 - the material on risk assessment, tests of controls, and sampling currently included in International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*, generalized for all examination and review engagements.
 - a brief discussion of the practitioner's responsibility for identifying fraud in an examination engagement.
 - material on the practitioner's responsibility for communicating specified findings to those charged with governance, the responsible party or the engaging party, as applicable.
- the revised standard not include the proposed ISAE 3000 ED requirement for a "rational purpose for the engagement" as the relevant substance of the requirement is already addressed elsewhere.

A first draft of the redrafted attestation standard will be brought to the ASB at its next meeting.

3. Executive Session

Ms. Eubanks, Director of Accounting and Auditing Publications, provided an update of matters of interest to the ASB.

Mr. Webb, Chair of the ASB Strategic Planning Task Force, presented the report of the Strategic Planning Task Force to the ASB. The ASB discussed the report and voted to accept the report and adopt the recommendations.

4. IAASB Update

Mr. Montgomery, Chair of the IAASB Auditor's Report Task Force, provided the ASB with an update of the activities of the IAASB Auditor's Report Task Force and sub-task forces. Mr. Santay discussed the perspective of the ASB Auditor's Report Task Force on the IAASB proposals.

5. Internal Auditors

Ms. Megan Zietsman, Chair of the Internal Auditor Task Force (“Task Force”), led a discussion of the major issues relating to the proposed SAS, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

The following is a summary of the issues discussed.

Timing

The Task Force had been waiting for the IAASB to finalize its standard before the U.S. task began its clarity redrafting of AU 322. The IAASB, in approving ISA 610 (Revised), decided to bifurcate the standard and therefore did not vote to issue, as a final standard, the section on direct assistance. The IAASB however did agree that the direct assistance content was “closed off” – that is, it would not require reconsideration before being finalized if the IESBA’s conclusion was such that it could be issued. The IAASB will await the IESBA’s final resolution on the IAASB’s referral. It is expected that the IESBA will come to a resolution sometime late 2012 or 2013.

The Task Force made the decision, with which the ASB tentatively concurred at its January meeting, to proceed with redrafting AU 322 using ISA 610 (Revised) in its entirety, including the direct assistance section, as the base. The ASB reaffirmed its decision to proceed with the development of a proposed clarified SAS, which will include the section on direct assistance and issue the proposed SAS for exposure when the ASB is ready to approve it for exposure.

Use of Internal Auditors

ISA 610 (Revised) addresses the auditor’s responsibilities if the auditor plans to use the internal audit function in obtaining audit evidence. The IAASB added additional rigor regarding the formality of the internal audit function. The Task Force expressed a concern that under this approach the current use of the internal audit function in the U.S. may be curtailed. This is of particular concern as the use of the internal audit function has been a long established practice in our jurisdiction, which in the Task Force’s view has not been the subject of practice issues. The IAASB added application guidance (paragraph A2) that seems to be designed to allow for some flexibility in using the internal audit function. After discussion, the ASB decided that the application guidance in paragraph A2 appears to be workable from the U.S. perspective, but directed the Task Force to develop additional application guidance to better explain how this concept would work in the U.S.

Direct Assistance

Recognizing that the section on direct assistance in the revised ISA is “closed off” and not yet final, the Task Force is generally supportive of the direction that the IAASB has taken on this issue. However, the IAASB added a series of requirement which seems to make it more onerous for the auditor to use internal auditors in a direct assistance capacity. The IAASB added these requirements in response to commentary from other jurisdictions, especially regulators, who expressed concerns of the potential excessive use of internal auditors in a direct assistance

capacity. The ASB discussed whether it would be appropriate to perhaps add application guidance to explain what would constitute “excessive use” of internal auditors in a direct assistance capacity. After discussion, the ASB decided to leave the content as is.

Terms of Engagement

Paragraph 33 of ISA 610 (Revised) contains requirements with respect to terms of the engagements which the Task Force believes are overly prescriptive and not necessary. After discussion, the ASB decided that the issue did not merit deviating from ISA 610 (Revised).

At the next ASB meeting in July, the Task Force will present a first draft of the proposed SAS.

The meeting adjourned at 10:30am on May 3, 2012.