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**Auditing Standards Board (ASB) meeting, July 31- August 2, 2012,
Minneapolis, MN; Highlights (ASB) meeting, July 31- August 2,
2012**

American Institute of Certified Public Accountants. Auditing Standards Board

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AUDITING STANDARDS BOARD (ASB) MEETING

July 31- August 2, 2012

Minneapolis, MN

MEETING ATTENDANCE

ASB Members

Darrel Schubert, *Chair*

Brian Bluhm

Rob Chevalier

Sam Cotterell

Jim Dalkin

David Duree

Ed Jolicoeur

Barbara Lewis

Carolyn McNerney

David Morris

Kenneth Odom

Don Pallais

Michael Santay

Kay Tatum

Kim Tredinnick

Kurtis Wolff

AICPA Staff

Amanda Black, *A & A Publications*

Linda Delahanty, *Audit & Attest Standards*

Amy Eubanks, *A & A Publications*

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards*

Chuck Landes, *Audit & Attest Standards*

Andy Mrakovcic, *Audit & Attest Standards*

Richard Miller, *Special Counsel*

Judith Sherinsky, *Audit & Attest Standards*

Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Dora Burzenski, *Deloitte & Touche LLP*

Richard Davisson, *McGladrey LLP*

Julie Anne Dilley, *PricewaterhouseCoopers LLP*

Diane Hardesty, *Ernst & Young LLP*

Jan Herringer, *BDO USA LLP*

John Keyser, *McGladrey, LLP*

ASB Meeting Highlights
July 31-August 2, 2012

	Sara Lord, <i>Boulay, Heutmaker, Zibell & Co. PLLP</i> (7/31)
<i>Absent</i>	Dan Montgomery, <i>Ernst & Young LLP</i> (8/1)
Jen Haskell	Marc Panucci, <i>PricewaterhouseCoopers LLP</i>
Brian Richson (represented by Marc Panucci)	Amy Steele, <i>SEC</i>
Steven Vogel	Mary Ann White, <i>Thompson Reuters</i>
	Megan Zietsman, <i>Deloitte & Touche LLP</i> (7/31)
	Susan Jones, <i>KPMG LLP</i> (8/2)
	Mark Chapin (8/2)

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 May 2012 ASB meeting were unanimously approved.

AGENDA ITEMS PRESENTED AT MEETING

1. Internal Auditor

Ms. Megan Zietsman led a discussion of the proposed SAS, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*. The objective of the presentation was to review a draft of the proposed standard.

The following is a summary of the issues discussed.

Application of systematic and disciplined approach

The Task Force recommended to the ASB adding an additional paragraph to further explain that the application of a systematic and disciplined approach was not intended to preclude altogether

the use of internal audit in smaller entities that have less formal groups or individuals who perform internal audit activities. After discussion, the ASB reached broad support for the inclusion of the paragraph. However, the ASB directed the Task Force to consider the possible effects to the audits of smaller entities and consider adding an example to illustrate internal audit like work.

Evaluation of the Internal Audit Function's Quality Control

Paragraphs 16(c) and 17(c) of ISA 610 (Revised) require that the auditor evaluate the quality control aspects of the internal audit function in determining whether the internal audit function applies a systematic and disciplined approach. Paragraph A11 of ISA 610 (Revised) explains that factors that may affect the auditor's determination of whether the internal audit function applies a systematic and disciplined approach include whether the internal audit function has quality control policies and procedures which are equivalent to the relevant sections of ISQC 1 (which would be the equivalent of those in SQCS 8 for audits performed in accordance with AICPA standards). The Task Force recognizes that this paragraph only provides application guidance, but the Task Force expressed the concern that this may inadvertently establish what might be an unduly high hurdle in evaluating the quality control of the internal audit function. The Task Force also expressed the concern about the perception that the standards for external auditors now appear to be imposed upon internal auditors. Instead, the Task Force is of the view that the auditor might look at what the internal audit function has put in place to comply with professional quality control standards applicable to internal auditors, for example, those standards promulgated by the Institute of Internal Auditors ("IIA"). Accordingly, the Task Force proposed edits to paragraph A11 to make these points clearer. After discussion, the ASB provided broad support for the revised paragraph, but directed the Task Force to consider edits to the paragraph to soften the reference to the IIA.

Relevant Ethical Requirements

Consistent with paragraph 17 of ISA 610 (Revised), paragraph 16 of the proposed SAS states in part that the external auditor shall not use the work of the internal audit function if the external auditor determines that a) the function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors. The related application guidance (paragraphs A13-A15) provides further information about how to evaluate the internal auditor's objectivity. However, the Task Force understands that the application guidance in ISA 610 (Revised) is premised upon the IESBA's conceptual framework of threats and safeguards, which is not consistent with the U.S. standards. The Task Force is concerned that the notions of threats and significant threats, as well as their implications, will not be well or consistently understood in the United States. Accordingly, the Task Force suggested edits to paragraph A13 to remove the references to the "threats and safeguards" model of the IESBA. After discussion, the ASB was supportive of the revisions, but directed the Task Force to consider retaining the example in ISA 610 (revised) but edit it to adapt to the U.S. framework.

Direct Assistance

Ms. Zietsman discussed the matter of direct assistance. She explained that 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 ASB noted that it seems that the IAASB has treated the subject matter of direct assistance differently than the subject matter of use of the internal audit function and is not sufficiently clear why they did so. The ASB explored three options:

- 1) leave the framework as presented in ISA 610 (Revised) and highlight the issue in the exposure draft;
- 2) make amendments to the requirements that seem to be more problematic from the ASB perspective (paragraphs 31 and 33); or
- 3) revert to our extant standard.

After discussion, the ASB directed the Task Force to revert to the content in our extant standard and consider supplementing it with more guidance on direction and supervision and consider the ISA content as application guidance.

2. Attestation Standards

Don Pallais, chair of the Attestation Recodification Task Force (task force) led the Auditing Standards Board (ASB) in a discussion of a draft of a proposed Statement on Standards for Attestation Engagements (SSAE). The task force has been charged with redrafting the SSAEs in clarity format, and converging them with International Standards on Assurance Engagements (ISAEs) issued by the International Auditing and Assurance Standards Board (IAASB). The task force is currently converging AT sections 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*; 50, *SSAE Hierarchy*; 101, *Attest Engagements*; and 201, *Agreed-Upon Procedures*, with aspects of both (1) the April 2011 exposure draft (ED) of ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, and (2) final SSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, which was issued in June 2012. During its discussions, the ASB:

- concurred with the proposed structure of the clarified attestation standards which will consist of a common concepts section applicable to all attestation engagements, separate general sections for examinations, reviews, and agreed upon procedures engagements, and separate sections for subject matter specific attestation engagements
- concluded that a practitioner should not be precluded from performing a review level engagement if analytical procedures cannot be performed on the subject matter
- concluded that the discussions of materiality and analytical procedures in the proposed SSAE should recognize situations in which the subject matter is not quantitative
- based on the ASB's discussion of proposed AU-C 610, *Using the Work of Internal Auditors*, directed the task force to revise the definition of *engagement team* in the

common concepts section to indicate that internal auditors are not part of the engagement team

- directed the task force to make various language revisions and clarifications throughout the draft

The ASB expects to vote to expose the proposed SSAE for comment at its October 2012 meeting.

3. Group Audits and AU-C 800 Amendments

Mr. Wolff, chair of the Group Audits Working Group, led a discussion of the materials presented relating to Group Audits. The Group Audits Task Force (“Task Force”) was convened at the request of the AITF to address certain specific issues that have recently arisen regarding group audits.

The ASB discussed the following issues:

Differing financial reporting frameworks

The Task Force brought an interpretation to the AITF at its meeting on July 16-17, 2012, that treated making reference when the financial reporting frameworks used by the component and the group differ in limited circumstances as departing from a mandatorily presumptive requirement. However, the AITF believed it is inappropriate to depart from a requirement that precludes an action, and directed the Task Force to prepare an amendment to AU-C 600 removing the preclusion against making reference when the financial reporting frameworks differ, in limited circumstances.

The ASB discussed the appropriateness of making reference when the financial reporting frameworks of the component and the group differ, and current practice in this regard. The ASB concluded that it was appropriate to allow making reference in limited circumstances, and necessary in such circumstances to make clear when the auditor of the group financial statements performed auditing procedures on the consolidation adjustment. The ASB suggested specific wording changes to the proposed amendment.

Audits performed in accordance with auditing standards other than GAAS

The ASB discussed whether to require disclosure of the auditing standards used by the component auditor when that auditor used auditing standards other than GAAS, and concluded that such disclosure would increase transparency but also create confusion.

Amendment to AU-C 800

SAS No. 122, section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, introduced the term *special purpose framework*, which is a cash, tax, regulatory, or contractual basis of accounting. The cash, tax, and regulatory bases of accounting are commonly referred to as other comprehensive bases of accounting (OCBOA). The term *OCBOA* was replaced with the term *special purpose framework*, which no

longer includes a definite set of criteria having substantial support that is applied to all material items appearing in financial statements. That basis of accounting was not included as the ASB was not aware of any definite set of criteria having substantial support that is applied to all material items appearing in financial statements. However, the AICPA is currently in the process of developing the Financial Reporting Framework for Small and Medium Entities (FRF-SME), which is a definite set of criteria having material support that is applied to all material items appearing in financial statements. Accordingly, an amendment to AU-C section 800 is proposed that adds a definite set of criteria having substantial support that is applied to all material items appearing in financial statements to the bases of accounting defined as special purpose frameworks.

The ASB discussed the proposed amendment and concluded that it was appropriate. The ASB directed that the example in paragraph .07 referencing the FRF-SME and the illustrative report on financial statements prepared in accordance with FRF-SME be deleted, as the FRF-SME has not yet been issued. The ASB also deleted the words “having substantial support” from the definition of the basis of accounting as the ASB was unable to agree upon the definition of the phrase.

The ASB agreed to hold a meeting on August 16, 2012, via teleconference, to review the revisions and vote to ballot the proposed SAS for exposure.

4. IAASB Update

Mr. Montgomery presented an update on recent activities of the IAASB relating to auditor’s report. Among other changes, the new report would include two new statements addressing the use of the going concern basis and whether any uncertainties were identified. Mr. Montgomery’s discussion included the background and the reasons behind the IAASB’s proposals for change. The IAASB tried to balance between various stakeholders’ requests. The IAASB has an Invitation to Comment (ITC) out on auditor’s reports seeking feedback from users, practitioners and standard-setters.

The ASB discussed its concerns with the proposal, including effort, cost and convergence issues. Mr. Santay, chair of the Auditor’s Report Issues Task Force (the “Task Force”), reported on the ASB proposed response. The Task Force is preparing a survey of members to obtain feedback that will inform the ASB’s response to the IAASB ITC.