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Auditing Standards Board (ASB) meeting, October 16-18, 2012, Cleveland, OH; Highlights (ASB) meeting, October 16-18, 2012

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AUDITING STANDARDS BOARD (ASB) MEETING

October 16-18, 2012

Cleveland, OH

MEETING ATTENDANCE

ASB Members

Darrel Schubert, *Chair*

Brian Bluhm

Rob Chevalier

Sam Cotterell (10/17-18)

Jim Dalkin

David Duree

Jen Haskell

Ed Jolicoeur

Barbara Lewis

Carolyn McNeerney

David Morris

Kenneth Odom

Don Pallais

Michael Santay

Kay Tatum

Kim Tredinnick

Steve Vogel

Absent

Brian Richson (represented by Marc Panucci)

AICPA Staff

Amanda Black, *A & A Publications*

Linda Delahanty, *Audit & Attest Standards*

Amy Eubanks, *A & A Publications* (by phone)

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards*

Chuck Landes, *Audit & Attest Standards*

Richard Miller, *Special Counsel*

Andy Mrakovcic, *Audit & Attest Standards*

Judith Sherinsky, *Audit & Attest Standards*

Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Dora Burzenski, *Deloitte & Touche LLP*

Richard Davisson, *McGladrey LLP* (by phone 10/17)

Julie Anne Dilley, *PricewaterhouseCoopers LLP*

Diane Hardesty, *Ernst & Young LLP*

Jan Herringer, *BDO USA LLP*

Ryan Kaye, *Ernst & Young LLP*

Ilene Kassman, *KPMG LLP*

Jennifer McGowan, *Ernst & Young LLP*
(10/17)

Eric Miller, *Deloitte & Touche LLP*

Maria Manasses, *Grant Thornton LLP*

Dan Montgomery, *Ernst & Young LLP*
(10/17 by phone)

Lesley Netter, *Ernst & Young LLP* (10/17)

Marc Panucci, *PricewaterhouseCoopers LLP*

Al Paulus, *Ernst & Young LLP* (10/17)

Paul Penler, *Ernst & Young LLP* (10/17)

Mark Schumacher, *KPMG LLP*

Amy Steele, *SEC*

Mark Taylor, *Case Western Reserve University* (10/18 only)

Bruce Webb, *McGladrey*

Mary Ann White, *Thompson Reuters* (by phone)

Kurtis Wolff, *Cohn Reznick* (10/17)

Megan Zietsman, *Deloitte & Touche LLP*
(10/17-18)

Mr. Schubert acknowledged the incoming ASB members in attendance (Mr. Webb, Ms. Kassman, Mr. Kaye, and Mr. Panucci) as observers.

Mr. Schubert discussed issues of interest to the ASB, including an update on the AITF's recent meeting with FASB and GASB. Mr. Landes discussed issues related to COSO and other issues of interest to the ASB. Mr. Santay reviewed the results from the auditor's report survey.

The highlights of the July 31-August 2, 2012 ASB meeting were unanimously approved.

The ASB set a meeting for November 28, 2012 to discuss comments received on the exposure draft of proposed SAS *Omnibus Statement on Auditing Standards—2012* and to vote to ballot the proposed SAS for issuance as a final standard.

1. AT 101

The Attestation Task Force (task force) has been redrafting Statements on Standards for Attestation Engagements (SSAEs) in clarity format, and converging those standards with International Standards on Assurance Engagements (ISAEs), issued by the International Auditing and Assurance Standards Board (IAASB). The task force currently is 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 Engagements*, with aspects of both (1) the April 2011 exposure draft of ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, and (2) final ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, which was issued in June 2012. Don Pallais, chair of the task force, led the Auditing Standards Board (ASB) in a discussion of a draft of four chapters of the clarified attestation standards (common concepts,

examination engagements, review engagements, and agreed-upon procedures engagements) that would replace AT sections 20, 50, 101, and 201.

After discussing the drafts, the ASB directed the task force to revise the draft to reflect the ASB's comments (see comments below) and present the revised draft at the ASB's January 2013 meeting, at which time the ASB expects to vote to expose chapters 1-4 of the SSAEs for comment. The ASB also asked the task force to present three clarified subject--matter specific chapters of the SSAEs for discussion at the January meeting. Chapters 1-4 will be exposed for comment separately from the subject matter specific chapters.

During its discussions, the ASB directed the task force to:

Chapter 1, Concepts Common to All Attestation Engagements

- Substitute the word *arbitrator* for the phrase *trier of fact* in paragraph 1A2 (c).
- Substitute the words “assertion about subject matter” for “aspects of subject matter” in paragraph 1A5.
- Edit paragraph 1.A6 to read “In an examination engagement, the practitioner’s objective is to obtain sufficient evidence to restrict attestation risk to a level that is, in the practitioner’s professional judgment, acceptably low to express an opinion about whether the subject matter or assertion is free from material misstatement.”
- Revise the definition of *review engagement* in paragraph 1.9(b) (ii) to read, “An attestation engagement in which attestation risk is greater than it is in an examination engagement. The role of the practitioner in a review engagement is to obtain evidence resulting from limited procedures in order to express a conclusion about whether any material modifications should be made to the subject matter or assertion in order for it be in conformity with the criteria. Because the practitioner obtains limited assurance in a review engagement, the types of procedures performed are less extensive than they are in an examination engagement and generally are limited to inquiries and analytical procedures.”
- Delete the unnumbered paragraph following paragraph 1. A6
- Move the last sentence of paragraph 1.9(b)(iii) to the objective section in chapter 4
- Indicate in the definition of *other practitioners* in paragraph 1.9 (n) that an other practitioner is independent and is not a member of the engagement team
- Move the definitions of “general use” and “risks of material misstatement” from paragraph 2.4 to paragraph 1.9

- Revise paragraph 1. A17 to indicate that the report described in that paragraph is an example of a report that is “not clearly distinguishable from an attestation report” rather than one that “could cause report users to incorrectly infer that it is an attestation report.”
- Move the last sentence of paragraph 1.A24 to the requirements section and reword it as “The practitioner ~~does~~ should not represent compliance with the requirements of this chapter unless the practitioner has complied with the requirements of this chapter and all other chapters relevant to the engagement .”
- Substitute the words “comply with” for the word “follow” in paragraph 1.16.
- Revise paragraph 1.24 to state “The responsible party is a party other than the practitioner and takes responsibility for the subject matter.”
- Move paragraph 1.A50 to the requirements section to indicate that the practitioner is required to seek the agreement of the engaging party.
- Delete from paragraph 1.29 (b) the words “and when relevant, the internal audit function in providing direct assistance.” Add the word “and” between the words “engagement team” and “the practitioner’s external specialists.” Make this a separate paragraph.
- Reorder the bullets in paragraph 1.A38 so that “relevance” is the first bullet.
- Delete paragraph 1.A44 and make the bullets in that paragraph sub bullets of paragraph 1.23(b)(iii)
- Revise the heading above paragraph 1.30 to “Assignment of the Engagement Team and the Practitioner’s Specialists.”
- Revise paragraph 1.30 (b) to read “be satisfied that the engagement team and any practitioner’s external specialists collectively have the appropriate competence and capabilities to...”.
- Delete the words “the agreed-upon” in paragraph 1.A54.
- Create an application paragraph linked to paragraph 1.33 that contains the last sentence of paragraph A3 of AU-C section 230, regarding timely documentation.
- Add two paragraphs following paragraph 1.32 that contain the requirements in paragraphs 16-17 of AU-C 230.

Chapter 2, Examination Engagements

- Redraft paragraph 2.8(d), regarding the inherent limitations of internal control, as application guidance

- In paragraph 2.8 delete the phrase, “On recurring engagements.”
- Insert an application paragraph linked to paragraph 2.9 that includes the guidance in AU-C 580.A26
- In paragraph 2.A9 replace the phrase “in the case of a recurring engagement” with the phrase, “when engagements are similar from year to year.”
- In paragraph 2.A15 replace the words “by the level of assurance” with the words “by the type of engagement.”
- In paragraph 2.A16 replace the word “determination” with the word “consideration.”
- Delete the heading above paragraph 2.16, “Revision as the Engagement Progresses.”
- Insert the heading “Risk Assessment Procedures” before paragraph 2.13, and the heading “Further Procedures” before paragraph 2.20.
- Revise paragraph 2.A21 so that the second sentence reads “If the responsible party has implemented effective monitoring of internal control, the practitioner may choose to test the monitoring component to reduce the assessment of control risk and the extent of tests of controls needed to achieve an appropriately low level of attestation risk.”
- Delete the words “of recorded quantities or ratios” from the second and third bullets of paragraph 2.26.
- Add an application paragraph after paragraph 2.A22 indicating that the AICPA Audit Guide Audit Sampling provides guidance that may be useful to a practitioner who has decided to use sampling in performing attestation procedures.
- Delete the bullet in paragraph 2.A24 that states “Withdraw the assurance report.”
- Change the word “conclusion” to “opinion” in various application paragraphs.
- Make the bullets in paragraph 2.A45 sub bullets of paragraph 2.37(c), and delete paragraph 2.A45.
- Add the words “giving consideration to the rationale and support provided by the specialist, and in relation to the practitioner’s other findings and conclusions” to the end of paragraph 2.A47(c).
- Conform paragraph 2.38(a) to AU-C 610.15 and make bullet “c” in paragraph 2.38 a separate requirement paragraph
- Move the third sentence in paragraph 2.A52, requiring the practitioner to be involved in the other practitioner’s work, to the end of paragraph 2.39(c).
- Delete the last sentence of paragraph 2.A51.

- Indicate in paragraphs 2.40 and 2.41 that the written representations should be in the form of a letter addressed to the practitioner.
- Add the representations in paragraph 2.A54 to the required representations in paragraph 2.40.
- Add an application paragraph linked to paragraph 2.40 indicating that a summary of uncorrected misstatements ordinarily is included in or attached to the written representation regarding uncorrected misstatements.
- Revise the lead-in in paragraph 2.41 to parallel the lead-in in paragraph 2.40.
- Reword paragraph 2.45 to make it an application paragraph linked to paragraph 2.44.
- In the first sentence of paragraph 2.46, add the words “(or point in time)” after the word “period;” replace the words “subject matter” with “examination engagement; ” and replace the words “responsible party” with the words “subject matter or.”
- Add a paragraph after paragraph 2.A58 that mirrors paragraph 3.A34.
- In the first sentence of paragraph 2.48, add the words “on subject matter or an assertion” after the word “report,” move the words “the subject matter or assertion and” after the word “contains,” and delete the word “thereon.”
- Add an application paragraph linked to paragraph 2.48 indicating that other information does not include information contained on the responsible party’s web site.
- In paragraph 2.55(f)(i), change the word “performed” to “conducted.”
- Revise the lead-in in paragraph 2.A75 to state, “The language in paragraph 2.54 (f) (ii) may need to be modified to reflect the nature of the subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph 2.54(f)(ii) include ,...to obtain reasonable assurance about whether...”
- Delete paragraph 2.A85.
- Replace the word “service auditor” with the word “practitioner” in paragraph 2.A88 and redraft that paragraph so that it is not worded as a requirement.

Chapter 3 Review Engagements

- Add a definition of the term “review evidence” to paragraph 3.4.

- Insert the words “or when the nature of the subject matter does not lend itself to the application of analytical procedures” after the word “evidence” in the first sentence of paragraph 3.A1.
- Add the words “and the responsibilities of the engaging party, if different” at the end of paragraph 3.9 (c).
- Revise paragraph 3.A3 (ii) to state “obtaining limited assurance about whether any material modifications should be made to the subject matter or assertion in order for it to be in conformity with the criteria” and delete the last sentence of paragraph 3.A3.
- Add an application paragraph linked to paragraph 3.11 that parallels AU-C 580. 26.
- Revise the bullets in paragraph 3. A5 that identify the matters that may be considered, to conform with the bullets in revised paragraph 2.A6.
- Delete the example in paragraph 3. A15.
- Add the words “and if necessary, attempt to obtain further evidence” after the word “engagement” in paragraph 3.26.
- Conform paragraph 3.A32 to paragraph 2.A58.
- Conform paragraph 3.A34, regarding the refusal to disclose subsequent events, to new paragraph 2.A57.
- Insert the words “release of” before the words “practitioner’s report” in the first sentence of paragraph 3.A35.
- Revise the lead-in and bullets in paragraph 3.30 to parallel the lead-in and bullets in paragraph 2.40.
- Add an application paragraph linked to paragraph 3.30 indicating that a summary of uncorrected misstatements ordinarily is included in or attached to the written representation regarding uncorrected misstatements.
- Conform the lead-in in paragraph 3.31 to parallel the lead-in in paragraph 2.41.
- Revise paragraph 3.36 to reflect the changes made to paragraph 2.48.
- Add an application paragraph linked to paragraph 3.36 indicating that other information does not include information contained on the responsible party’s web site.
- Change the word “performed” to “conducted” in paragraph 3.42(f)(i).

- Add an application paragraph linked to paragraph 3.42(h) indicating that the practitioner may identify the specified parties by naming them or by identifying a class of parties.
- Revise the last sentence of paragraph 3.A65 (b) so that it reads “For example, the practitioner may consider it necessary to observe a physical process but due to timing problems is unable to do so; or...”.
- Revise paragraph 4.6 (a) to read “Apply to subject matter or an assertion procedures that are established by specified parties who agreed upon the procedures and are responsible for the sufficiency of the procedures for their purposes.”
- Add an application paragraph linked to paragraph 4.8 indicating that although independence is required for agreed-upon procedures engagements, Ethics interpretation 101-11 (ET 101.13) modifies the independence requirements for such engagements.

2. Internal Auditors

Ms. Megan Zietsman led a discussion of the proposed SAS *AU-C 610, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*. The objective of the presentation was to approve the proposed standard for exposure.

The following is a summary of the issues discussed.

References to Threats and Safeguards

Ms. Zietsman explained that some of the requirements and application guidance in ISA 610 (Revised) are premised upon the IESBA’s conceptual framework of threats and safeguards which runs throughout its Ethics code. Although the AICPA’s Code of Professional Conduct in the Independence Section contains the conceptual framework of threats and safeguards (ET Section 100-1), the remainder of the Code is not set up as a series of threats and safeguards. Accordingly, the Internal Audit Task Force (the Task Force) suggested edits to paragraph A14 to remove the references to the “threats and safeguards” model of the IESBA, and had discussed such edits previously with the ASB at its July 2012 meeting.

Additionally, Ms. Zietsman explained that based on the Board’s instructions, the Task Force considered and analyzed all other instances of the use of “threats and safeguards” in the proposed SAS. In most cases, the term “threat” was used to identify instances where the external auditor would assess the “significance of threats to objectivity to determine if use of the function (in either a direct assistance or use of work of the function capacity) was appropriate.” Accordingly, the Task Force proposed changes to this language for purposes of the proposed SAS in order to clarify the sentences to focus on the external auditor’s “evaluation of objectivity” rather than “threats to objectivity” which is similar to the extant AU 322 approach, and similar to the changes suggested for proposed paragraph A14.

An ASB member argued against the proposed edits because it did not make sense to eliminate the term “threats” and to keep the term “safeguards.” Another member explained that the concept of threats and safeguards is not new in the U.S. ethics code as it is used in the independence

section of the Ethics code. After discussion, the ASB agreed to revert to the ISA wording and retain the concept of threats and safeguards.

Direct Assistance

Ms. Zietsman explained that during the July meeting, the ASB instructed the Task Force to amend the requirements and application guidance related to using internal audit in a direct assistance capacity, ensuring that the proposed SAS was consistent with the extant standard, and considering the use of the words from the extant standard where possible. In responding to this request, the Task Force re-evaluated the use of the term “threats and safeguards” in all of the requirements and application guidance related to direct assistance.

Ms. Zietsman reviewed each of the proposed changes to the direct assistance section with the ASB. The ASB expressed concern over paragraph 31 which would preclude the auditor from using the internal auditor in certain circumstances. Several ASB members stated that the proposed requirements in subparagraphs (a) and (b) were too onerous and the proposed requirements in subparagraphs (c) and (d) were too confusing. After discussion, the ASB agreed to delete paragraph 31. The ASB also agreed to make other minor edits to the direct assistance section.

Ms. Zietsman also reviewed with the ASB the proposed conforming amendments to AU 315 and the conforming amendments to other SASs. No major issues were discussed.

The ASB voted unanimously to issue the proposed SAS, now titled *Using the Work of Internal Auditors*, for exposure.

3. IAASB Update

Mr. Montgomery presented an update on recent and upcoming activities of the IAASB.

Mr. Schubert thanked the outgoing members of the ASB for their service. Outgoing members are Darrel Schubert, Brian Bluhm, Rob Chevalier, David Duree, David Morris, Kenneth Odom , Steve Vogel, and Brian Richson. He also thanked Kurtis Wolff, who resigned from the ASB when his firm merged with the firm that audits the AICPA.