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Auditing Standards Board (ASB) meeting, May 7-9, 2013, Boston, MA; Highlights (ASB) meeting, May 7-9, 2013

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AUDITING STANDARDS BOARD (ASB) MEETING

May 7-9, 2013

Boston, MA

MEETING ATTENDANCE

ASB Members

Bruce Webb, *Chair*
Hunter Cook
Sam Cotterell
Jim Dalkin
Jack Fuchs
Jennifer Haskell
Sandra Johnigan
Ed Jolicoeur
Ilene Kassman
Ryan Kaye
Barbara Lewis
Carolyn H. McNerney
David Miller
Don M. Pallais
Marc Panucci
Mike Santay
Chris Smith
Kay W. Tatum (absent)
Kim Tredinnick

AICPA Staff

Mike Buddendeck, *General Counsel* (5/7-8)
Linda Delahanty, *Audit & Attest Standards*
Mike Glynn, *Audit & Attest Standards* (5/8-9)
Ahava Goldman, *Audit & Attest Standards*
Hiram Hasty, *Audit & Attest Standards* (5/7-8)
Chuck Landes, *Audit & Attest Standards*
Richard Miller, *Special Counsel* (5/7-8)
Andy Mrakovcic, *Audit & Attest Standards*
Judith Sherinsky, *Audit & Attest Standards*
Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Dora Burzenski, *Deloitte & Touche LLP*
Julie Anne Dilley, *PwC LLP*
Kathleen Griffith, *DCAA* (5/7 only)
Diane Hardesty, *Ernst & Young LLP*
David Johnson, *Baker Tilly*
Susan Jones, *KPMG LLP*
Maria Manasses, *Grant Thornton LLP*
Tammy Mooney, *Thompson Reuters*
Mandy Nelson, *KPMG LLP* (by phone, 5/8 only)
Dan Montgomery, *Ernst & Young LLP* (by phone, 5/9 only)

Chair's Report

Mr. Landes and Mr. Webb provided an update on matters of interest to the ASB. These included:

- FRF-SMEs. The ASB discussed whether there is a need for guidance on determining whether an entity's applicable financial reporting framework is "GAAP except for" or a special-purpose framework. The possibility that the GAAP that an entity uses should be identified in auditor's report was also mentioned.
- COSO framework.

- The comment letter process and the process for providing input on IAASB matters. ASB members who have the time are urged to participate in IASTF meeting or provide comments to Mr. Landes.
- The comment letter on the Audit Quality Framework.
- Potential future projects for the ASB, including
 - Auditing disclosures and fair value estimates.
 - Monitoring audit quality projects of other standard-setters.
 - Meeting with the Peer Review Board to understand practice issues.

The ASB approved the January 2013 meeting highlights.

1. Attestation standards

Mr. Pallais, Chair of the Attestation Task Force, presented a draft of a proposed Statement on Standards for Attestation Engagements (SSAE) that would supersede

- AT section 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*;
- AT section 50, *SSAE Hierarchy*;
- AT section 101, *Attest Engagements*; and
- AT section 201, *Agreed-Upon Procedures Engagements*.

The foundation for chapter 1, *Concepts Common to All Attestation Engagements*, chapter 2, *Examinations Engagements*, and chapter 3, *Review Engagements*, of the proposed SSAE is (1) the April, 2011 exposure draft of International Standard on Assurance Engagements (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. Many of the paragraphs in the proposed SSAE have been converged with the related paragraphs in the ISAE 3000 ED with changes made to reflect U.S professional standards and the U.S environment. Other content in the proposed SSAE is derived from the extant SSAEs. Because the ISAE 3000 ED does not cover agreed-upon procedures engagements, chapter 4 of the proposed SSAE, “Agreed-Upon Procedures Engagements” is based on a redrafting of extant AT section 201 in clarified format.

The ASB directed the task force to make the following changes to the draft

- In paragraph 1. A2 delete the phrase “in connection with the resolution of a dispute between two or more parties” because that concept is already embedded in the term “litigation services.” Change “arbitrator” to “trier of fact” in paragraph 1.A2 (b)
- To accommodate other professional standards that may be developed in the future, indicate in paragraph 1.3 that chapter 1 is not applicable to professional services for which the AICPA has established other professional standards and provide some examples of such services, rather than listing all of the services.

- Add a requirement in paragraph 1.24 indicating that if the practitioner is not independent but is required by law or regulation to report on the subject matter or assertion, the practitioner should disclaim an opinion and state in the report that the practitioner is not independent.
- In paragraph 1.A35, delete “understandability” as an attribute of suitable criteria.
- In paragraph 2.41 for examinations and paragraph 3.32 for reviews, add to the list of required representations a representation that the responsible party has disclosed to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial of which the responsible party is aware.
- Add a requirement in paragraph 2.52 for examinations, paragraph 3.43 for reviews, and paragraph 4.25 for agreed-upon procedures that the practitioner use alternative language in the restricted use paragraph of the report when the engagement is performed in accordance with government auditing standards. The paragraph should describe the purpose of the practitioner’s written communication and state that the practitioner’s written communication is not suitable for any other purpose.
- Delete paragraph 2.59 for examinations and paragraph 3.49 for reviews, which address reporting on a dirty assertion (management has identified and properly described in its assertion a departure from the criteria). Add the words “even when the assertion acknowledges the misstatement” at the end paragraphs 2.60 and 3.50 so that those paragraphs cover the circumstances described in paragraphs 2.59 and 3.49.
- Add a requirement in paragraph 2.62 indicating that when the engaging party is not the responsible party, the practitioner should document the oral responses from the responsible party to the practitioner’s inquiries regarding the matters in paragraph 2.41.
- In paragraph 3.A73, revise the illustrative review report on an assertion in example 2 of chapter 2, to state that “Those standards require that we plan and perform our review to obtain limited assurance about whether any material modifications should be made to management’s assertion in order for it to be *fairly stated*”, rather than *in conformity with the criteria*.
- Add an illustrative review report to paragraph 3.A73 that contains a qualified opinion on subject matter.
- Revise paragraph 4.2 to indicate that an agreed-upon procedures engagement is one in which a practitioner is engaged to issue a report of findings based on specific agreed-upon procedures applied to subject matter for use by specified parties, rather than to assist specified parties in evaluating subject matter.

- Add a statement to paragraph 4.24 indicating that (1) chapter 4 does not require the practitioner to request a written assertion from the responsible party, or if different, the engaging party and that (2) in an agreed-upon procedures engagement, a practitioner may choose to request a written assertion from the engaging party.
- In paragraph 4.25 add “or review” to the requirement for the practitioner’s report to state that the practitioner was not engaged to and did not conduct an examination of the subject matter.

The ASB voted unanimously to ballot the proposed SSAE for exposure for a 90 day comment period.

Mr. Pallais also presented a draft of clarified AT section 301, *Prospective Financial Information*. The ASB discussed the draft and provided comments on it. The task force will revise the draft and it will be presented at the July 2013 ASB meeting.

2. Going Concern

Mr. Santay led a discussion of the ongoing activities related to Going Concern. The following is a summary of the matters discussed.

Mr. Santay explained that the Going Concern issue is part of the IAASB’s Auditor Reporting project. Accounting and auditing standards setters are working on developing proposals to revise their standards.

Mr. Santay noted that the FASB is expected to finalize its exposure draft soon. A fatal flaw draft has been circulated for review. He indicated that the issue of going concern is on the PCAOB agenda and is expected that they will issue their proposal after the FASB releases their proposal. He also noted that the Center for Audit Quality has a task force organized that is tracking the project.

Mr. Santay explained that the FASB proposal would require disclosure requirements by companies when it is *more likely than not* that the company would not realize its assets or meet its obligations in the ordinary course of business. This requirement would be applicable for all companies, public and private. However, public companies would have to make a substantial doubt declaration when it is *probable* that the company would not realize its assets or meet its obligations in the ordinary course of business. This requirement would not be applicable for private companies.

Mr. Santay also explained that the IASB has been discussing a proposed amendment to IAS 1. Their proposal would: 1) retain the guidance related to Going Concern, 2) provide guidance on material uncertainties, removing the term substantial doubt, and 3) contain disclosures requirements with respect to material uncertainties.

The ASB discussed the timing of the various proposals. The IAASB is expected to issue their proposed standards for exposure in June 2013 and the final standard is expected in June 2014. It is unclear when the IASB and the FASB will issue their exposure drafts.

The ASB discussed the need to respond to the FASB exposure draft when it is issued. Also, the ASB discussed having a process to align our standard with the FASB standard.

3. Conflict Minerals

Ms. Nelson, chair of the Conflict Minerals Task Force, led a discussion to inform the ASB about the activities of the Task Force. The topic is very challenging. The Task Force has held a call with SEC staff and there are more questions than answers.

The mechanism for communicating guidance is through Q&As posted to a dedicated webpage on the AICPA's Financial Reporting Center website (<http://www.aicpa.org/InterestAreas/FRC/Pages/AICPAConflictMineralsResources.aspx>). The Task Force is not sure that an SOP will be necessary.

The SEC rules require that an independent private sector audit be performed under GAGAS, either as an attestation engagement (which only CPAs can perform) or as a performance audit (which non-CPAs may perform). The first two Q&As, which have been posted, address performance audit versus attestation engagement. The next batch of Q&As, not yet posted, address independence. SEC, GAO, and AICPA independence rules are all relevant. The task force is being aided by a subgroup of independence specialists from firms.

The Task Force is working on two more group of questions. One addresses the scope of the audit, which is more limited than originally thought. There are two assertions and there is no connection between the two assertions, and no element of completeness in the audit objectives. The Task Force will be submitting additional questions to the SEC about the audit. In the call with the SEC, the SEC was clear that the Task Force should not be taking the lead in answering questions about the rule.

The Task Force is also working on sample reports, starting with attestation reports. There is a concern that readers might think auditors are associated with the issuer's determination of whether they have conflict minerals, and auditors are not giving assurance on that. Carve-outs are a bulleted list and the Task Force is trying to make sure the report is not misleading or confusing. The next area of focus will be defining the audit and what materiality is in this context.

Ms. Nelson provided an update on what the preparer community is doing to provide guidance on doing the due diligence and on recent litigation.

4. Federal Projections

Mr. Landes led the ASB in a discussion to inform them of the activities of the Federal Projection Task Force and the issues facing the Task Force. He informed the ASB that GAO has an institutional conflict, and thus Mr. Dalkin has stepped off the task force. Bob Dacey, a member of Federal Accounting Advisory Board and former ASB member, will join the task force and Dan Murrin, EY partner with governmental expertise, will chair.

Mr. Landes reviewed the issues presented in the agenda material. The ASB discussed the issues and noted that FASAB is defining the Statement of Social Insurance and statement of long-term projections as basic financial statements, necessary for fair presentation. Auditors are troubled by the fact that the basis for preparation assumes the current laws won't change, which is not realistic; is this information meaningful and can it be fairly presented given the long time-frame?

Mr. Landes stated that he, Mr. Murrin, Mr. Dalkin, Mr. Dacey and Mr. Webb will meet to draft an auditor's report that is acceptable to the profession and to FASAB.

5. IAASB Update

Mr. Webb discussed the comment letter from the CAQ on the IAASB's

Mr. Montgomery provided an update on the activities of the IAASB's auditor reports project. A new standard, ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, is expected to be issued as an exposure draft after the IAASB's June meeting.

Mr. Landes provided an update on other activities of the IAASB. The proposed ISAs that the IAASB will be exposing require for including key audit matters and identifying the engagement partner in the auditor's report only for listed entities. The ASB needs to determine its views on the proposed standards and consider the implications for changes to the auditing standards for convergence.

Other projects the IAASB is working on include a task force on disclosures that is looking at ISAs 200-300 with a view to providing additional guidance on auditing disclosures.

6. Performance Audits

Mr. Landes led the ASB in a discussion of a project proposal to determine whether AICPA should develop standards or guidance for conducting performance audits, as CPAs are

increasingly being asked to perform performance audits. The Yellow Book has standards for conducting performing audits. The IAASB has a direct assistance service that is part of ISAE 3000 that resembles a performance audit under GAGAS. The ASB directed that a task force be formed to consider the issues and make a recommendation to the ASB.

7. Comfort Letters

Mr. Santay led the ASB in a discussion of the issues presented in the agenda material. AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties*.

Issue 1: Exhibit B, Example D

The ASB discussed the issue and the proposed revision. The exposure draft of proposed AU-C section 920 was consistent with this revision; however, the final standard included the procedure that the revision propose to delete. The ASB directed that further inquiry be made of firm experts about the appropriate correction.

Issue 2: Written review reports for non-issuers

The ASB discussed whether to revise the standard so that attaching the review report is only required when the auditor mentions that a review report was issued. Ms. Goldman noted that this change was made to reflect the fact that issuing a review report is now required for interim reviews. Mr. Kaye noted that this change will result in a change in practice.

The ASB discussed the process for making revisions to the standards. The ASB discussed the need to expose the proposed revision, notwithstanding that a previous change to AU-C 934 had done as a correction to achieve the ASB's intent.

The ASB directed that consideration be given to determining that all practice issues arising from the clarification of AU-C 920 have been identified, and that the topic be brought to the AITF for discussion.

The meeting adjourned at 12:30pm.