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Auditing Standards Board (ASB) meeting, January 7-9, 2014, San Diego, CA; Highlights (ASB) meeting, January 7-9, 2014

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AUDITING STANDARDS BOARD (ASB) MEETING

January 7-9, 2014

San Diego, CA

MEETING ATTENDANCE

ASB Members

Bruce Webb, *Chair*
Hunter Cook
Jim Dalkin
Jack Fuchs
Liz Gantnier
Jennifer Haskell
Sandra Johnigan
Ilene Kassman
Ryan Kaye
Barbara Lewis
Carolyn H. McNerney
David Miller
Don M. Pallais
Marc Panucci
Josh Partlow
Rick Reisig
Mike Santay (by phone)
Chris Smith
Kay W. Tatum (by phone)

AICPA Staff

Linda Delahanty, *Audit & Attest Standards*
Ahava Goldman, *Audit & Attest Standards*
Hiram Hasty, *Audit & Attest Standards*
Jennifer Hackim, *Regulated Industries*
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

Denny Ard, *Dixon Hughes Goodman LLP*
Sally Ann Bailey, *Deloitte & Touche LLP*
Julie Ann Dilley, *PwC LLP* (by phone)
Jan Herringer, *BDO LLP* (by phone)
Susan Jones, *KPMG LLP* (by phone)
John Keyser, *McGladrey LLP*
Eric Miller, *Deloitte & Touche LLP*
Tammy Mooney, *Thompson Reuters*
Paul Penler, *Ernst & Young LLP*
Elizabeth Paul, *PwC LLP* (by phone 1/7)
Laura Schuetze, *Grant Thornton LLP* (by phone)
Megan Zietsman, *Deloitte & Touche LLP* (by phone, 1/8-9)

Chair's Report

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

The ASB approved the October highlights.

New members Liz Gantnier, Josh Partlow and Rick Reisig were welcomed to the Board.

Liaison Meeting

The ASB met with the PCPS Technical Issues Committee and discussed issues of mutual interest.

1. Comfort Letters

Mr. Santay, chair of the Comfort Letters Task Force, led the ASB in a discussion of a proposed SAS, *Amendment to Statement on Auditing Standards No. 122, Statements on Auditing Standards: Clarification and Recodification*, section 920, *Letters for Underwriters and Certain Other Requesting Parties*, as amended. SAS No. 122 section 920, *Letters for Underwriters and Certain Other Requesting Parties*, superseded AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, and was intended to redraft AU section 634 for clarity but not change practice in this area. However, the ASB became aware of practice issues as a result of implementing AU-C section 920 and, accordingly, the Task Force was charged with proposing amendments to AU-C section 920 to address those issues and avoid unintended changes to previous practice. In addition, the Task Force identified additional amendments to further clarify AU-C section 920.

The ASB reviewed the proposed SAS and the exposure draft and directed that the following changes be made:

- Paragraph 9, insert “nor is the auditor required to provide comfort on every matter requested when accepting an engagement to issue a comfort letter” at the end of the paragraph to clarify.
- Paragraphs 12 b, Insert “or review” after “an audit”.
- Paragraphs 21 and A18- delete paragraph A18 and incorporate the concepts therein into paragraph 21. Delete “reporting on significant components” thereby requiring the auditor to read each component auditor’s comfort letter included in the securities offering, which the ASB believes is current practice.
- Delete paragraphs 36, 37, 45, 50, 51, A44, A46, A53, A54, A66 from the proposed exposure draft as the ASB agreed to retain the language “a review of interim financial information in accordance with GAAS applicable to reviews of interim financial information” and not change to “a review of interim financial information in accordance with AU-C section 930”.
- Paragraph 53, change “pro forma condensed consolidated financial statements” to “pro forma financial information”.
- Paragraph A59, add full titles of both illustrations in example D.
- Paragraph A92, add “If requested to provide a definition of “substantially consistent,” the following language may be added to the letter:

What is substantially consistent may vary from situation to situation and may not be the same as that done in a registered offering of the same securities for the same issuer. Whether the procedures being, or to be, followed will be substantially consistent is determined by us on a case-by-case basis.”

- Example O, last paragraph, add reference to “review” and “conclusion” to parallel “examination” and “conclusion”.

The ASB discussed whether to change add “in accordance with standards promulgated by the PCAOB” to the phrase “a review conducted in accordance with GAAS” and concluded it was not necessary. The ASB directed that the comment deadline be April 15 and that the proposed SAS be brought back to the ASB in May for consideration of a final standard.

The ASB unanimously voted to ballot the proposed standard for exposure.

2. AU-C section 315 Amendments

Mr. Hasty led a discussion of the issues relating to proposed amendments of AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AUC 315), as a result of the issuance in May 2013 of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework.

The following is a summary of the matters discussed.

Issues

At the October 2013 ASB meeting, the ASB concluded that AU-C 315 is currently framework-neutral and should continue to be so. The ASB also decided that no requirement for the auditor to consider the COSO principles should be included in AU-C 315 and directed the Task Force to consider adding the COSO principles as application material.

The Task Force considered how to incorporate the COSO principles into the application material of AU-C 315. In doing so, the Task Force compared the wording in AU-C 315, as it relates to the internal control and its components, to the 1992 COSO Framework to assess whether the internal control content in AU-C 315 was loosely or closely aligned to the 1992 COSO Framework. If the content was closely aligned, one option would be to amend the wording in AU-C 315 to maintain alignment with the 2013 COSO Framework. The Task Force found that the internal control content in the existing AU-C 315 was loosely based on the 1992 COSO Framework. Therefore, the Task Force concluded that it was not necessary to make detailed changes to the component definitions or to replace/amend the application material to include the “principles” of the 2013 COSO Framework.

However, the Task Force decided that a more detailed analysis comparing the relevant sections of the application guidance and Appendix B in AU-C 315 to the 2013 COSO Framework should

be performed. The Task Force believes this is important in order to identify any gaps in the guidance. This “gap analysis” has not yet been performed.

With respect to the principles in the 2013 COSO Framework, the Task Force concluded that it might be helpful to include the internal control components and the related 17 principles in a separate Exhibit to AU-C 315, leaving Appendix B unchanged. The Exhibit would be helpful in audits of financial statements or audits of internal control of entities that follow COSO.

An ASB member raised the issue that while it is the ASB’s position to be framework-neutral, AU-C 315 requires the auditor to gain an understanding of the five components of internal control of COSO. Another member suggested the model used by the SEC which requires that if an entity uses a framework other than COSO, the auditor should adapt the procedures accordingly. A member noted that the GAO released for comments proposed changes to *Standards for Internal Control in the Federal Government*, commonly known as the “Green Book.” It provides the overall framework for establishing and maintaining an effective internal control system for the Federal government. The Green Book is also used by State and Local governments.

After discussion, the ASB reiterated its prior decision not to include in AU-C 315 a requirement for the auditor to use the principles in the COSO Internal Control Framework. It directed the Task Force to consider the guidance in the Green Book and other frameworks. In considering any changes to the application material, such proposed changes should be kept to a minimum. The ASB did not consider the “gap analysis” necessary.

3. Internal Auditors

Ms. Zietsman, chair of the Internal Auditors Task Force (“Task Force”), led a discussion of the major revisions made to proposed AU-C 610, *Using the Work of Internal Auditors* and related conforming amendments. The objective to the presentation was to seek the approval of the ASB to move to ballot the proposed standard as final.

The following is a summary of the matters discussed.

Issues

Using Internal Auditors to Provide Direct Assistance – Excluded or significantly modified ISA 610 requirements

In October 2013, based on comments received on the exposure draft of the proposed SAS, the ASB discussed again certain requirements in ISA 610 (Revised 2013), *Using the Work of Internal Auditors* (ISA 610), relating to using internal auditors to provide direct assistance that had been omitted from the exposure draft (specifically paragraphs 30, 32, and 33).

At the October 2013 meeting, the ASB agreed with the Task Force's proposal to exclude paragraph 30 and to reinstate paragraph 32. Also, the ASB reconsidered the prior decision to omit paragraph 33 and directed the Task Force to revise the draft standard to (1) include a requirement similar to paragraph 33a and (2) insert application guidance similar to paragraphs A40 and A44.

While deliberating the ASB's instructions for ISA 610 paragraphs 33a- b, the Task Force discussed some possible unintended consequences of including ISA 610 paragraph 33a in the proposed SAS which the Task Force brought to the attention of the ASB.

The Task Force noted that in some cases where auditors have performed audits in accordance with the PCAOB standards, they may be subsequently requested to issue a report in accordance with AICPA standards. The PCAOB standards addressing use of work of internal auditors to provide direct assistance do not contain a requirement similar to ISA 610, paragraph 33a (paragraph 31 of the proposed SAS). Paragraph 31 states the following:

Prior to using internal auditors to provide direct assistance, the external auditor should obtain written acknowledgment from management or those charged with governance, as appropriate, that internal auditors providing direct assistance to the external auditor will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor.

It would likely be impossible to comply with such requirement "after the fact" and therefore any work performed by internal auditors in a direct assistance capacity would have to be reperformed by the external auditor in order to report on the same audit in accordance with the AICPA standards.

After discussion, the ASB decided that this situation is not common, and in the interest convergence it was important to keep the requirement. With respect to the other Task Force's recommendations, the ASB agreed with the proposals as presented.

Other

The Task Force had recommended including in the proposed SAS a requirement for the auditor to document the written acknowledgment required to be obtained under paragraph 31. The ASB noted that this proposed requirement was not in ISA 610 (Revised 2013) and decided that it was not necessary.

Vote to Ballot

The ASB unanimously approved to move the ballot the proposed SAS as a final standard. The SAS will be effective for audits of financial statements for periods ending on or after December 15, 2014.

4. Attestation Standards, General Chapters

Mr. Pallais, Chair of the Attestation Task Force, led the ASB in a discussion of certain issues raised in comment letters on the July 2013 exposure draft *Attestation Standards: Clarification and Recodification* (ED). The ASB formed the following conclusions:

- In an agreed upon procedures engagement, unlike an examination or review engagement, an implicit or explicit assertion does not necessarily exist, and the proposed standard should be revised to reflect this conclusion.
- Chapter 4 “Agreed-Upon Procedures Engagements” should not be presented as a stand-alone chapter to which chapter 1 “Concepts Common to All Attestation Engagements” does not apply. Instead, chapter 1 should be revised to eliminate material that is not applicable to an agreed-upon procedures engagement or to identify such material and explain why it is not applicable.
- Agreed-upon procedures engagements should be retained in the attestation standards.
- The proposed standard should be revised to provide for an exemption from obtaining a written assertion from the responsible party when the practitioner is performing an examination or review for a governmental entity that is required by law to undergo that engagement and the responsible party is not able or willing to provide a written assertion.
- An application paragraph linked to the definition of “examination engagement” [par. 1.10(b)(i)], should be added to chapter 1 indicating that the practitioner obtains the same level of assurance in an examination engagement as the auditor does in an audit of financial statements, and that examinations are sometimes referred to as audits.
- It is not necessary to add to the proposed standard additional paragraphs from the auditing standards that could be adapted to the attestation standards. The ASB believes that the proposed standard, as drafted, contains the correct balance of material from the auditing standards, from the extant attestation standards, and new material.
- The task force should be prepared to explain why certain requirements in the auditing standards that could be adapted to the attestation standards, were not carried forward to the attestation standards
- The formatting requirements for an attestation report in the proposed standard need not conform with the formatting requirements for reports in the clarified auditing standards, for example, required subheadings before each type of paragraph in the report. The proposed standard should contain a rationale for why such requirements do not exist in the attestation standards, i.e., the range of subject matters for an attestation engagement is very broad and flexibility is needed in the reporting.

- The following bullet should be added to the objectives of an agreed-upon procedures engagement in paragraph 4.6
 - c. to communicate further as required by relevant chapters of the attestation standards
- Delete paragraphs 1.32 and 1.A53 from chapter 1 and add a requirement in
 - chapter 2 for the practitioner to communicate fraud, suspected fraud, illegal acts (including illegal acts that are not limited to the subject matter) and internal control deficiencies
 - chapter 3 for the practitioner to communicate fraud, suspected fraud, and illegal acts (including illegal acts that are not limited to the subject matter)
 - in chapter 4 for the practitioner to communicate fraud and illegal acts

When the engaging party is not the same as the responsible party, the practitioner should communicate this information to the engaging party in addition to the responsible party.

5. IAASB Update

This agenda item was not discussed due to lack of time.

The meeting adjourned at 11am on January 9, 2014.