

In Our Opinion...

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Risk Assessment Q & As

by Hiram Hasty

Statements on Auditing Standards (SAS) Nos. 104 -111, commonly referred to as the risk assessment standards, are effective for audits of financial statements for periods beginning on or after December 15, 2006, which means they are effective for calendar year 2007 audits.

After the risk assessment standards were issued in March 2006, the AICPA undertook a comprehensive campaign to assist auditors in implementing these new standards. That effort included:

- Issuing an Audit Risk Alert, *Understanding the New Auditing Standards Related to Risk Assessment*
- Issuing a new AICPA Audit Guide, *Assessing and Responding to Audit Risk in a Financial Statement Audit*
- Publishing 2 articles in the Journal of Accountancy (July 2006 and January 2007)
- Developing CPE self study courses
- Making presentations at various AICPA, state society, and other conferences

Members have submitted questions about the new standards, and the AICPA staff collected these inquiries and developed responses in the form of Q & As. One trend that emerged in reviewing the Q & As is that auditors have questions concerning the implementation of the requirements and guidance related to internal control in SAS No.

109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and in SAS No. 110, *Performing Audit Procedures in Response to the Assessed Risks and Evaluating the Audit Evidence Obtained*. The staff expects to issue guidance related to SAS No. 110 shortly to address particular questions about when controls should be tested. The following are some of the Q&As that have been compiled.

Q. Last year I assessed internal control risk at maximum. Can I still default to that?

A. No. The standards require that the auditor obtain a sufficient understanding of the client's internal control to assess control risk. As the auditor obtains that understanding, he or she may identify material weaknesses in the design of controls and, as a result, end up assessing control risk at maximum for some financial statement accounts and relevant assertions. Additionally, the auditor might initially assess control risk at less than maximum only to find out later, after testing controls, that controls were not effective and would then reassess control risk at maximum.

Q. Does a control have to be documented for it to be tested?

A. No. However it is recommended that entities document their controls so that their auditors can efficiently test them for operating effectiveness and reliance thereon. If the entity does not document a control, and it is an important control, the auditor will need to document the control as part of the auditor's assessment of internal control. Inquiry, observation, and reperformance are the types of tests that are performed when determining whether a particular control has been placed in operation. However, it may not be practical to test the operating effectiveness of controls throughout the audit period without some level of documentation of the control by the client.

Q. I've read through the Audit Risk Alert for SAS Nos. 104 -111 and have a question related to walkthroughs. How often do walkthroughs need to occur? For example, for the cash disbursement process, do they need to occur every year, once every three years, or some other frequency? Please let me know your thoughts.

A. Under SAS No. 109, the auditor is required to obtain an understanding of internal control to evaluate the design of controls and to determine whether they have been implemented. To do that, performing a walkthrough would be a good practice. Accordingly, auditors will probably perform a walkthrough of significant accounting cycles every year. In some situations, the standards allow the auditor to rely on audit evidence obtained in prior periods. In those situations, the auditor is required to perform audit procedures to establish the continued relevance of the audit evidence obtained in prior periods, for example, by performing walkthroughs. So, auditors will most likely perform walkthroughs every year.

Q. If I know in advance that controls over financial reporting are nonexistent or ineffective, could the evaluation and documentation of such controls (including the walkthrough) be skipped? If this is a scope limitation, can an unqualified opinion still be issued?

A. No. SAS No. 109 requires the auditor to obtain a sufficient understanding of the five components of internal control to evaluate the design of controls and determine whether they have been implemented. Secondly, SAS No. 109 requires auditors to assess the risks of material misstatement at the assertion level as the basis for designing and performing further audit procedures. It is not a scope limitation if the auditor skips the audit procedures. A scope limitation exists only if the client imposes the limitation. However, failure to perform a required procedure would be a violation of generally accepted auditing standards.

Q. When I perform a walkthrough of controls with my client, may I suggest client improvements in internal control?

A. Absolutely! A byproduct of obtaining an understanding of internal control is making suggestions for improvement to the client. That brings value to the audit process.

Q. If the auditor decides not to test controls, does that mean there is a significant deficiency that must be communicated?

A. No, not necessarily. It depends on why the auditor decides not to test the control. The auditor's decisions about the nature, timing, and extent of further audit procedures are based on the assessment of the risk of material misstatement. Communications under SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, are based on control deficiencies that the auditor has identified. If the auditor decides not to test a control because it is nonexistent or is not properly designed, then that would represent a control deficiency that would need to be assessed as to severity to determine whether it is a significant deficiency or material weakness. If the design of the control is appropriate, but the auditor decides not to test it for another reason (for example, because the control is redundant), then the auditor has not identified a control deficiency.

Q. Does the AICPA publish audit programs that reflect these standards?

A. No. But the AICPA did publish an audit guide to assist practitioners in implementing the standards, which you can access at www.cpa2biz.com.

Q. Regarding SAS No. 107, can you comment on the requirement to identify users of the financial statements and consider their needs as a group?

A. SAS No. 107 states that in determining materiality, auditors need to consider the needs of users. This represents *guidance* provided by SAS No. 107 and is not a *requirement*. This concept is further discussed and elaborated on in Chapter 3 of the AICPA Audit Guide.

Members are encouraged to submit questions about the risk assessment standards, or any other standard, which will assist the staff in determining areas in which additional interpretative guidance is needed.

New Members of the ASB

Jacob J. Cohen is a retired partner of Walpert and Wolpoff, LLP in Baltimore, MD. Jacob served as a former member of the AICPA's Auditing Standard's Board and Technical Issues Committee, the Audit Subcommittee of the CPA Board of Examiners, and the AICPA Council. He received his MBA from Loyola College and his JD from the University of Baltimore. Jacob is a certified fraud examiner and a certified valuation analyst. He has authored and edited a number of AICPA publications and is the editor of various newsletters dealing with the automotive and healthcare industries. He is a past president of the Maryland Association of Certified Public Accountants as well as a member of the Society of Automotive Analysts, where he served on its board nomination committee. Jacob is a former assistant professor of accounting at the University of Baltimore. He served on the Maryland State Board of Accountancy, chairing that board for 5 years, and on the

National Association of State Boards of Accountancy as regional director for 2 years. Jacob and his wife Odette have 3 children, Sam, David, and Morris as well as 3 grandchildren.

Charles Frasier is a member in Frasier, Dean & Howard, PLLC in Nashville, TN. His areas of emphasis at the firm are auditing, accounting consultation, tax planning, and internal control consultation. He also is involved in litigation support projects. Charles has taught for over 30 years at Lipscomb University, his alma mater, where he currently chairs the Department of Accounting. He also taught at Vanderbilt University and the University of Tennessee, all in Nashville. He served for 3 years on the Tennessee State Board of Accountancy. Charles is a certified management accountant and a member of the Institute of Management Accountants, Tennessee Society of Certified Public Accountants, American Accounting Association, the Tennessee Society of Accounting Educators, the AICPA, and Financial Executives International. Charles is an elder at the Brentwood Hills Church of Christ. Charles and his wife, Martha, have two children, Stephen and Julie, and two grandchildren.

Andrew Mintzer has over 25 years of experience as a CPA, including 16 years at Ernst & Young auditing public and privately-held companies and providing litigation services. Andy currently is a sole practitioner providing accounting, consulting, and education services. He has served on boards of directors of several not-for-profit associations and on the audit committee of a large not-for-profit association. He has testified as an expert witness in depositions, arbitration hearings, mediations, and at trials. Andy has taught and written numerous current development and technical seminars covering a wide range of accounting, auditing, and financial reporting issues.

Andy served on the Accounting Standards Executive Committee of the AICPA from 2001 to 2005, and currently is a member of the ASB's International Auditing Standards Subcommittee. He was chair of the Report Quality Monitoring Committee of the California Board of Accountancy and, for the past 12 years, has served on the California Society of CPA's Accounting Principles & Auditing Standards Committee; he was chair of the committee from 1997 to 1999. Prior to that, he served as chair of the Accounting Principles Subcommittee and the Los Angeles chapter of that committee. Andy holds a B.A. in accounting and an M.A. in accountancy from the University of South Florida. He also is a licensed Canadian Chartered Accountant. Andy and his wife Laura have 3 children Jack (21), Anna (14) and Beth (11).

Randy C. Roberts is the professional practice director for the Arizona Office of the Auditor General (OAG) where he is responsible for quality assurance activities. Randy gained his audit experience in the Financial Audit Division of the Arizona OAG where he audited states, universities, counties, community colleges, hospitals, health plans, and school districts.

Randy served on the AICPA State and Local Government Expert Panel and was a member of a task force that revised the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*, to reflect the issuance of SAS No. 112. He has been a member of the RSI/SI Task Force as well as the Government Audit Committee Toolkit Task Force. Randy chairs the Audit and Accounting Standards Technical Committee of the National State Auditors Association (NSAA), and serves as a member of its Single Audit, Human Resources, and other Committees. He served as concurring reviewer and team leader on numerous peer reviews in the NSAA Peer Review Program. His other professional activities include having served on the board of directors of the Arizona Society of CPAs and the Phoenix Chapter of the Association of Government Accountants, and as a member of the Governmental Accounting Standards Board's Elements of Financial Statements Task Force.

Born and raised in Phoenix, AZ, Randy graduated from Northern Arizona University in 1981 with a Bachelor of Science degree in accountancy. Randy is a CPA licensed in Arizona and is a Certified Government Financial Manager.

Thomas M. Stemlar retired as an audit partner of Arthur Andersen LLP in 1996. He was a consultant to the Securities and Exchange Commission's Panel on Audit Effectiveness, and served on boards of directors of corporations in various industries, including healthcare.

Tom was director of worldwide practice monitoring and of worldwide accounting and auditing professional education for Andersen worldwide. He served as director of professional practice – corporate governance and audit committees in Andersen's national practice. Prior to that he was managing partner of the firm's audit practice in its Milwaukee office.

Tom served on the AICPA's Blue Ribbon Commission on Audit Committees, the Quality Control Inquiry Committee, and chaired the Peer Review Committee for 3 years. He is a member of the AICPA's Antifraud Programs and Controls Task Force. Tom graduated from the University of Iowa, Iowa City, in 1961.

Improving the Quality of Single Audits

by *Judith M. Sherinsky*

In June 2007 the President's Council on Integrity and Efficiency issued a report addressed to the Office of Management and Budget entitled "Report on National Single Audit Sampling Project." The report contains the findings of a federal study of the quality of audits of compliance (not audits of financial statements) performed under Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (also referred to as single audits).

Approximately 49 percent of the single audits in the study were considered acceptable; the remaining 51 percent were considered to have deficiencies severe enough to classify them as limited in reliability or unacceptable. The most prevalent deficiency identified by the report was the auditor's failure to document (1) his or her understanding of internal control over compliance requirements, and (2) the testing of controls over, and compliance with at least some compliance requirements. The report indicates that one of the most consequential deficiencies was incorrectly identifying a program as a *major program* in the Summary of Auditor's Results section of the Schedule of Finding and Questioned Costs, resulting in the auditor erroneously expressing a compliance opinion on a program that had not been audited. A detailed discussion of all of the categories of deficiencies and related recommendations are enumerated in Part II of the report which is available at: <http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>.

One of the recommendations included in the report is that the AICPA consider changes to AU section 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, or to the related Audit Guide, *Government Auditing Standards and Circular A-133 Audits*. To respond to that recommendation, the AICPA's Governmental Audit Quality Center established 6 task forces that are focusing on the following topics, as they relate to single audits:

- Sampling when testing compliance
- Internal control and compliance responsibilities

- Practice monitoring
- Reporting audit findings
- Single audit training needs and continuing professional education
- Deficiencies in compliance audit work related to the schedule of expenditures federal awards

At its August 2007 meeting the ASB discussed how it could best respond to the findings in the report and agreed that the guidance in AU section 801 should be updated and revised to respond to specified recommendations in the report. The ASB concluded that this could be accomplished by either (1) revising AU section 801 or (2) deleting AU section 801 and replacing it with an attestation standard. The Compliance Auditing Task Force of the ASB has been charged with updating and revising the guidance in AU section 801 and, at the January 2008 ASB meeting, will discuss issues related to the form and content of a revision of the guidance in AU section 801

SSARS No. 6: Defining Professional Requirements, and Omnibus SSARS – 2008 ED

by Mike Glynn

In December 2007, the Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 16, *Defining Professional Requirements in Statements on Standards for Accounting and Review Services*. The Statement defines the terminology to be used in SSARSs when describing the degree of responsibility an accountant has for performing a particular procedure. For example, AR section 100.09 states, “If any evidence or information comes to the accountant's attention regarding fraud or an illegal act that may have occurred, the accountant should request that management consider the effect of the matter on the financial statements.” The word *should* indicates a presumptively mandatory requirement, which means that the accountant is required to comply with the requirement in all cases in which the applicable circumstances exist. In rare circumstances, the accountant may depart from a presumptively mandatory requirement provided that he or she documents the justification for the departure and how alternative procedures were sufficient to achieve the objectives of the presumptively mandatory requirement. To obtain copies of SSARS No. 16, see the ordering information on page 18 and request product no. 060654

Additionally, the ARSC has issued an exposure draft (ED) of a proposed SSARS, *Omnibus Statement on Standards for Accounting and Review Services – 2008*, that would:

- Replace the term *nonpublic entity* with the term *nonissuer*, wherever that term is used in SSARSs. This conforms the terminology in SSARSs with the terminology used by other standard setters. Generally a *nonpublic entity*, as currently defined in AR section 100.04, would be considered a *nonissuer* under the revised definition.
- Revise AR section 100 to clarify that a compilation of financial statements is an engagement in which no assurance is provided. In addition, new sections entitled “Objective of a Compilation Engagement” and “Objective of a Review Engagement” would be added to AR section 100 to clearly indicate the differences between compilation, review, and audit engagements. The clarified objectives are reflected in the illustrative engagement letters in the appendices of AR section 100.
- Revise AR section 100.26 to indicate that in a review engagement, the accountant must (1)

apply analytical procedures to the financial statements, (2) make inquiries of management and, when appropriate, other company personnel, and (3) obtain representations from management for all financial statements and periods covered by the accountant's review report. AR section 100.31 also would be revised to reflect the requirement related to analytical procedures.

- Revise the definition of the term *third party* in AR section 100.04 to clarify that the phrase, "who are knowledgeable about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of financial statements" applies to members of management. The revision also would introduce a definition of the term *management*.
- Revise AR section 100.36 and 100.89 to require that management's written representations be made as of the date of the accountant's review report.
- Provide guidance on the accountant's consideration, in a compilation or review engagement, of (1) the entity's ability to continue as a going concern and (2) subsequent events.
- Add an exhibit to AR section 100 that provides guidance on performing analytical procedures in a review engagement.

The comment period for the ED ended on December 28, 2007. Certain sections of the proposed Statement would be effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008; early application would be permitted. At its January 15, 2008 meeting, the ARSC will consider comments received on the ED which is currently available on the AICPA Web site at:

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Exposure+Drafts+of+Proposed+Statements/Omnibus+Statement+on+Standards+for+Accounting+and+Review+Services+-+2008.htm>



Improvements in the Technical Hotline

The AICPA Technical Hotline Team provides nonauthoritative advice to members on questions related to accounting, auditing, attestation, and accounting and review services. Each year it responds to approximately 23,000 inquiries from AICPA members, employees, and representatives of governmental entities.

To improve its service to AICPA members, the Technical Hotline now has a new dedicated telephone number (**1-877-242-7212**) used only for Technical Hotline inquiries so that callers no longer need to proceed through various menu options to reach the Technical Hotline.

The new telephone number also enables the Technical Hotline to be available to callers during periods when it ordinarily would be closed, for example, during AICPA team meetings or holiday parties.

In addition, beginning January 14, 2008, the Technical Hotline Team will expand its hours from **9 a.m. until 8 p.m. ET** on weekdays to better serve callers on the west coast. Technical inquiries also may be submitted electronically at: <http://www.aicpa.org/members/div/infohot/form.asp>. The

Technical Hotline Team will respond to these inquiries by telephone.

Highlights of Technical Activities

The Auditing Standards Board (ASB) performs its work through task forces composed of members of the ASB and others with technical expertise in the subject matter of the projects. The findings of these task forces periodically are presented to the members of the ASB at public meetings for their review and discussion. Highlights of matters addressed by the ASB are available at the following Web site:

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Auditing+Standards+Board/asbmtg/hlts.htm>

Task Forces of the ASB

Following are the current task forces of the ASB and brief summaries of their objectives and recent activities.

Analytical Procedures Task Force (Staff Liaison: Andy Mrakovcic; Task Force Chair: Walt Conn). This task force is revising AU Section 329, *Analytical Procedures*, with the objective of converging that standard with an exposure draft of International Standard on Auditing (ISA) 520 (Redrafted), "Analytical Procedures," issued by the International Auditing and Assurance Standards Board (IAASB) in December 2007. In March 2008, the ASB expects to submit a comment letter to the IAASB on the December 2007 exposure draft.

Auditing Accounting Estimates Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Megan Zietsman). The task force is revising AU Section 342, *Auditing Accounting Estimates*, with the objective of converging that standard with an exposure draft of ISA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," issued by the IAASB in December 2006. The exposure draft includes changes to ISA 540 to reflect (1) comments on a December 2004 exposure draft of that standard, (2) the IAASB's clarity drafting conventions, and (3) the combination of ISA 540 with ISA 545, *Auditing Fair Value Measurements and Disclosures*. In April 2007 the ASB submitted a comment letter to the IAASB on the December 2006 exposure draft. Proposed ISA 540 is expected to be finalized shortly.

Auditing Related Party Transactions Task Force (Staff Liaison: Mike Glynn; Task Force Chair: George P. Fritz). In February 2007 the IAASB issued an exposure draft revising ISA 550, *Related Parties*. The task force will be revising AU Section 334, *Related Parties*, to achieve convergence with the related ISA being developed by the IAASB. The ASB submitted a comment letter on the IAASB exposure draft which has been posted on the IFAC Web site with other responses at: <http://www.ifac.org/Guidance/EXD-Comments.php?EDID=0077&Group=All+Responses>

Audit Issues Task Force (Staff Liaison: Sharon Walker; Task Force Chair: Harold L. Monk). This task force (1) oversees the ASB's planning process, (2) evaluates technical issues raised by various constituencies and determines their appropriate disposition, including referral to an ASB task force or development of an interpretation or other guidance, (3) addresses emerging audit and attestation practice issues, (4) provides advice on ASB task force objectives and composition, (5) monitors the progress of task forces, and (6) assists the chair of the ASB and the Audit and Attest Standards staff in carrying out their functions, including liaising with other groups. The next meeting of the AITF will

be on February 13, 2008.

Auditors' Reports Task Force (Staff Liaison: Sharon Walker; Task Force Chair: Harold L. Monk). This task force is revising AU Section 508, *Reports on Audited Financial Statements*. The ASB believes that it is appropriate and timely to revisit the required reporting elements and the language in the auditor's report for audits of nonissuers. The task force is considering how best to proceed in light of the research being undertaken by the Auditor's Report Research Task Force and the ASB's clarity project

Auditor's Report Research Task Force (Staff Liaison: Sharon Walker; Task Force Chair: Douglas Prawitt). This task force is charged with identifying research topics and individuals to perform research related to the expectation gap and how the audit report might be revised to better address this expectation gap. At its May 2007 meeting, the ASB approved 4 of the projects that had been submitted. The first phase of the research initiative involves identifying common misconceptions users have regarding an unqualified auditor's report. A second phase of the research will explore ways in which the auditor's report might be revised to address user misconceptions, and to more clearly communicate the intended message.

Clarity Task Force (Staff Liaison: Sharon Walker; Task Force Chair: John Fogarty). The objective of this task force is to address concerns about the clarity, length, and complexity of the ASB's standards. To achieve this objective the ASB issued a discussion paper in March 2007 seeking reactions to proposals to revise the format, structure, and style of the ASB's standards. The task force also is charged with revising the 10 generally accepted auditing standards and proposing amendments as necessary so that these standards are consistent with the current auditing model. At its January 2008 meeting, the ASB will discuss issues related to this project.

Compliance Auditing Task Force (Staff Liaison: Judith Sherinsky; Task Force Chair: George Rippey). The task force is revising the guidance in AU Section 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, in response to recommendations in the June 2007 "Report on National Single Audit Sampling Project" issued by the President's Council on Integrity and Efficiency. See "Improving the Quality of Single Audits," on page 3 for information about this project.

Confirmations Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Megan Zietsman). The task force is considering revisions to AU Section 330, *The Confirmation Process*, to achieve convergence with a proposed revision of ISA 505, *External Confirmations*. In July 2007, the IAASB issued an exposure draft of proposed redrafted ISA 505. The task force will monitor the IAASB's deliberations and drafts in developing the proposed SAS.

Going Concern Task Force (Staff Liaison: Judith M. Sherinsky; Chair: Jorge Milo). This task force is revising AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, based on the IAASB's February 2007 exposure draft of ISA 570, *Going Concern*. The auditing guidance in ISA 570 is predicated on International Accounting Standard 1, *Presentation of Financial Statements*, which requires management to assess the entity's ability to continue as a going concern. Currently, a parallel accounting requirement does not exist in U.S. generally accepted accounting principles and the auditor, rather than management, is responsible for assessing whether an entity is a going concern. As part of its Codification project, the Financial Accounting Standards Board plans to include in the Codification (1) a requirement for management to assess the entity's ability to continue as a going concern and (2) disclosure requirements that are currently in AU Section 341. The task force will present a revised draft of the proposed SAS at the ASB's January 2008 meeting.

Interim Reviews Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Jorge Milo). The task force is considering the development of guidance for reviews of the condensed interim financial information of nonissuers, including nonissuers that prepare (in a manner similar to issuers) quarterly condensed financial information based on contractual, indenture, or other third-party requirements. At the January 2008 ASB meeting, the task force will discuss a proposed revision of the applicability of SAS No. 100, *Interim Financial Information*.

Internal Control Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: Keith O. Newton). The task force is developing a replacement for AT Section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*, of Statements on Standards for Attestation Engagements (SSAE), and revising AU Section 325, *Communicating Internal Control Related Matters Identified in an Audit*, in response to:

- The adoption of Public Company Accounting Oversight Board Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*.
- The IAASB's proposed ISA, *Communicating Deficiencies in Internal Control*

The engagement described in the proposed SSAE is an integrated audit (an audit of the entity's financial statements and an examination of its internal control). The task force will present a first draft of the proposed SSAE at the January 2008 ASB meeting.

International Auditing Standards Subcommittee (Staff Liaison: Sharon Walker; Subcommittee Chair: Susan S. Jones). The objective of this subcommittee is to support the development of international auditing standards. Subcommittee activities include providing technical advice and support to the AICPA representative and technical advisors to the IAASB, commenting on exposure drafts of international assurance standards, participating in and identifying U.S. volunteer participants for international standard-setting projects, identifying opportunities for establishing joint standards with other standard setters, identifying international issues that affect auditing and attestation standards and practices, and assisting the ASB and other AICPA committees in developing and implementing AICPA international strategies. The next meeting of the Subcommittee will be on March 3-4, 2008.

Management Representations Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Keith O. Newton). The task force is considering revisions to AU Section 333, *Management Representations*, to achieve convergence with newly revised and redrafted ISA 580, *Written Representations*. At its December 2007 meeting, the IAASB voted to issue revised and redrafted ISA 580 as a final standard. The task force expects to present a draft of a proposed SAS at the May 2008 ASB meeting.

Quality Control Standards Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: David Brumeloe). In December 2007, the ASB issued Statement on Quality Control Standard No. 7, *A Firm's System of Quality Control*. To assist practitioners in implementing the new standard, a practice aid, *Establishing and Maintaining A System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, has been developed and is available at:

http://www.aicpa.org/download/members/div/auditstd/System_of_Quality_Control_Practice_Aid.pdf

The task force also has been charged with revising AU Section 161, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*, to achieve convergence with ISA 220, *Quality Control for Audits of Historical Financial Information*. In July 2007, the IAASB issued an

exposure draft entitled *Proposed Redrafted ISA 220, "Quality Control for an Audit of Financial Statements,"* with a comment period ending on December 31, 2007. In developing the proposed SAS, the task force will monitor the IAASB's deliberations and drafts.

Risk Assessments Task Force (Staff Liaison: Hiram Hasty; Task Force Chair; Darrel Schubert). The task force is charged with redrafting SAS Nos. 106 -111 to reflect the clarity conventions approved by the ASB at its August 2007 meeting. The task force has begun redrafting the SASs, and will present a revised draft of SAS No. 108, *Planning and Supervision*, at the January 2008 ASB meeting.

Service Organizations Task Force: (Staff Liaison: Judith Sherinsky; Task Force Chair: George Tucker.) This task force is revising the guidance in AU Section 324, *Service Organizations*, which currently provides guidance to auditors of the financial statements of entities that use service organizations (user auditors) and also to auditors reporting on controls at service organizations (service auditors). The guidance for service auditors will be removed from AU Section 324 and placed in a new attestation standard. The IAASB is currently revising ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, and also developing a new International Standard on Assurance Engagements 3402, *Assurance on a Service Organization's Controls*, that will provide guidance to service auditors. At its December 2007 meeting, the IAASB voted to expose these drafts for comment. The objective of the task force is to converge the guidance in generally accepted auditing standards on service organizations with that of the IAASB. A service organization is an entity that performs services for another entity (a user organization) that affect the user organization's information system. An example of a service organization is a payroll service that calculates payroll data, based on input from user organizations, and transmits the payroll data to the user organizations to be incorporated in the user organizations' financial statements. The task force will present drafts of the proposed auditing and attestation standards at the January 2008 ASB meeting.

Supplementary Information Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Jeffery N. Markert). The task force is charged with considering current reporting standards that address supplementary information and required supplementary information and determining whether revisions to these standards should be made. Included in this consideration would be the amendment of:

- The procedures included in AU Section 558, *Required Supplementary Information*, as well as the related interpretation.
- The reporting requirements related to supplementary information in AU Section 550, *Other Information in Documents Containing Audited Financial Statements*, and in AU Section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*.

The task force plans to submit a first-read draft of revisions to AU section 558 at the January 2008 ASB meeting.

Using the Work of a Specialist Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Darrel Schubert). The objective of the task force is to revise AU Section 336, *Using the Work of a Specialist*. In October 2007, the IAASB voted to expose for comment proposed ISA 620, *Using the Work of an Auditor's Expert*. If approved, the proposed ISA would amend existing ISA 620, *Using the Work of an Expert*, and establish standards and provide guidance to the auditor when he or she engages an expert. To address situations in which the expert is employed or engaged by

management, the IAASB proposed an amendment to ISA 500, *Audit Evidence*. The task force will begin a project to revise AU Section 336 and replace it with two standards. One of the proposed standards will be based on proposed ISA 620 and will address situations in which an auditor engages an outside (non-firm) specialist. The other proposed standard will focus on situations in which an auditor uses as audit evidence the work product of a nonemployee specialist hired by management, and will expand on the IAASB's proposed amendment of ISA 500.

Other Activities

Accounting and Review Services Committee (ARSC) (Staff Liaison: Mike Glynn; Committee Chair: Thomas A. Ratcliffe). The ARSC is the senior technical committee of the AICPA designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of nonpublic entities. The charge of the ARSC is to develop and communicate, on a continuing basis, comprehensive performance and reporting standards as well as practice guidance that enable practitioners to provide high quality, objective, compilation and review services that serve the profession, clients, and the general public. The ARSC accomplishes this objective by developing compilation and review standards, timely responding to the need for guidance, and clearly communicating such guidance to the profession and users of financial statements. The next meeting of the ARSC will be on January 15, 2008 at the Washington DC office of the AICPA. For information about Statement on Standards for Accounting and Review Services (SSARS) No. 16, issued in December 2007, and an exposure draft of a proposed SSARS, see page 6. To view highlights of past and current ARSC meetings, go to: <http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Accounting+and+Review+Services+Committee/Approved+Highlights+of+ARSC+Meetings.htm>

Auditing Standards Committee of the American Accounting Association (AAA) (Chair: Thomas M. Kozloski, Wilfrid Laurier University; ASB/AICPA Liaisons to the Committee: Douglas Prawitt and Mike Glynn). The Auditing Standards Committee of the AAA is charged with fostering interaction between the AAA's Auditing Section and auditing standard-setting bodies such as the AICPA's ASB. The ASB supports strengthening its relationship with the academic community as well as increasing that community's participation in the standard-setting process.

International Auditing and Assurance Standards Board (IAASB) (U.S. Member: John A. Fogarty; U.S. Technical Advisor: Sharon Walker). The next meeting of the IAASB will be on March 10-14, 2008 at the AICPA in New York City. Copies of the International Federation of Accountants' exposure drafts outstanding; final auditing, assurance, related services, and quality control standards; and information about attending IAASB meetings, which are open to the public, can be found at: <http://www.ifac.org>.

Professional Issues Task Force (PITF) (Staff Liaison: Mike Glynn; Task Force Chair: Charles J. McElroy). The PITF is responsible for accumulating and considering practice issues that appear to present concerns for practitioners performing audits and reviews of financial statements or agreed-upon procedures. The PITF also is responsible for disseminating information or guidance, as appropriate, in the form of practice alerts. Practice alerts are intended to provide practitioners with information that may help them improve the effectiveness and efficiency of their engagements and practices, and are based on existing professional literature, the experience of the members of the PITF, and information provided by AICPA member firms to their own professional staffs. The PITF also refers matters that may require reconsideration of existing standards to the appropriate standard-setting body. The next PITF conference call meeting is scheduled for January 22, 2008. All alerts that have not been superseded are published annually in the AICPA Technical Practice

Aids and are also available at the following Web site:

http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Professional+Issues+Task+Force/pract_alerts.htm.

XBRL Assurance Task Force (Staff Liaison: Erin Mackler, Judith M. Sherinsky; Task Force Chair: Bill Titera). In February 2005 the SEC issued a rule allowing registrants to voluntarily submit, in addition to their regular EDGAR filings, supplemental financial information in Extensible Business Reporting Language (XBRL). XBRL is a format for electronically tagging data that enables users to efficiently access that data. For example, if all of the companies in a specified industry have submitted their financial statements in XBRL format, and an analyst wishes to compare revenue for all the companies in that industry, the analyst could quickly extract that information. The task force will be developing performance and reporting guidance to assist practitioners reporting on XBRL instance documents (the electronic file consisting of financial data along with the corresponding XBRL tags). In September 2007, the SEC announced the completion of work on developing data tags for U.S. generally accepted accounting principles, and in October 2007 announced the creation of a new office within the SEC to lead in the move toward interactive financial reporting by public companies.

Auditing Standards Board Agenda

Codes: DI—Discussion of issues, DD—Discussion of draft document, DP—Vote to approve a discussion paper for public distribution, ED—Vote to ballot a document for exposure, EP—Exposure Period, CL—Discussion of comment letters, FI—Vote to ballot a document for final issuance, SU—Status Update.

Project	<u>ASB Meeting Date and Location</u> January 8-10, 2007 Amelia Island, FL
Clarity Format of SASs	DI
The Auditor's Communication With Those Charged With Governance	ED
Compliance Auditing	DI
Audit Documentation	DI/ED
Going Concern	DD
Interim Financial Information	DD
Internal Control - AT 501	DD
Required Supplementary Information	DD
Risk Assessments	DD
Service Organizations – SAS	DD
Service Organizations – SSAE	DD

To view a projected timetable of ASB projects through 2009, see the following AICPA Web site:
http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Auditing+Standards+Board/asb_project_timetable.htm

Recently Issued and Approved Documents

Statements on Auditing Standards (SASs)		
Title (Product Number)	Issue Date	Effective Date
SAS No. 114, <i>The Auditor's Communication With Those Charged With Governance</i> (060709)	December 2006	Effective for audits of financial statements for periods beginning on or after December 15, 2006.

Interpretations of Statements on Auditing Standards	
Title	Issue Date
Interpretation of AU Section 330, <i>The Confirmation Process: Interpretation No. 1, "Use of Electronic Confirmations"</i> (AU sec. 9330.01-.06 http://www.aicpa.org/download/auditstd/announce/Edited_Draft_Interpretation-Electronic_Confirmations.pdf)	March 2007

Statements on Quality Control Standards (SQCSs)		
Title (Product Number)	Issue Date	Effective Date
SQCS No. 7, <i>A Firm's System of Quality Control</i> (060709)	October 2007	Effective as of January 1, 2009

Statements on Standards for Accounting and Review Services (SSARSs)		
Title (Product Number)	Issue Date	Effective Date
SSARS No. 16, <i>Defining Professional Requirements in Statements on Standards for Accounting and Review Services</i> (060654)	December 18, 2007	Effective upon issuance.
SSARS No. 15, <i>Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services</i> (060653)	July 24, 2007	Effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007. Early application is permitted.

**Interpretations of Statements on Standards for
Accounting and Review Services (SSARs)**

Title	Issue Date
Interpretations of AR Section 100, <i>Compilation and Review of Financial Statements</i> : Interpretation No. 29, "Reporting on an Uncertainty, Including an Uncertainty About an Entity's Ability to Continue as a Going Concern" (AR sec. 9100.120 - .129) (Interpretation No. 11, "Reporting on Uncertainties" is rescinded)	February 2007

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AICPA Audit and Attest Standards Staff

Name	Title	E-mail address
Charles E. Landes	Vice President	<i>clandes@aicpa.org</i>
Linda Delahanty	Technical Manager	<i>ldelahanty@aicpa.org</i>
Mike Glynn	Technical Manager	<i>mglynn@aicpa.org</i>
Ahava Goldman	Technical Manager	<i>agoldman@aicpa.org</i>
Hiram Hasty	Technical Manager	<i>hhasty@aicpa.org</i>
Andy Mrakovcic	Technical Manager	<i>amrakovcic@aicpa.org</i>
Judith M. Sherinsky	Technical Manager	<i>jsherinsky@aicpa.org</i>
Sharon Walker	Technical Manager	<i>swalker@aicpa.org</i>
Sherry P. Hazel	Administrative Secretary	<i>shazel@aicpa.org</i>
Sharon Macey	Administrative Secretary	<i>smacey@aicpa.org</i>

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For additional information about projects of the Audit and Attest Standards Staff and the Auditing Standards Board, call (212) 596-6036.

Editor: Judith M. Sherinsky

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