

In Our Opinion...

The Newsletter of the AICPA Audit and Attest Standards Team

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Reviews of Interim Financial Information

by Mike Glynn

Nonissuers frequently are required to prepare interim financial information as an update to their annual financial reporting. Such interim financial information may be condensed or in the form of full financial statements.

In 2007 a joint task force consisting of representatives of the Auditing Standards Board (ASB) and the Accounting and Review Services Committee (ARSC) was established to consider and develop guidance on reviews of interim financial information of nonissuers. Currently, Statements on Standards for Accounting and Review Services (SSARs) is applicable when an accountant reviews the financial statements of a nonissuer, and the Public Company Accounting Oversight Board's (PCAOB) interim auditing standard, *Interim Financial Information*, applies when an auditor reviews the interim financial information of an issuer. (The source for the PCAOB interim standard is Statement on Auditing Standards [SAS] No. 100, *Interim Financial Information* [AU sec. 722], which was applicable to reviews of issuers prior to the establishment of PCAOB standards.)

The task force concluded that there is an inherent difference between a review of financial information performed by an accountant who also is the entity's auditor and a review performed by an accountant who is not. Consequently, the task force concluded that the nature and extent of the procedures an accountant performs in a review engagement may vary depending on the knowledge the accountant has about the entity. The core of a review engagement –performing analytical procedures and making inquiries of

management as a basis for expressing limited assurance that the financial statements are not materially misstated— remains the same.

Because interim financial reporting generally is intended to provide an update to year-end reporting, the task force concluded that when the most recent financial statements have been audited or the current year financial statements are to be audited, a review of interim financial information should be considered an extension of the annual audit engagement and, as such, the requirements and guidance for performing and reporting on such engagements should reside in the auditing literature.

The task force worked with the ASB to develop and expose for public comment a proposed SAS that would revise SAS No. 100 to accommodate reviews of the interim financial information of nonissuers. The proposed SAS was exposed for public comment on September 2, 2008 with a comment period ending on November 3, 2008. The exposure draft and comment letters received can be accessed by clicking [here](#)

At its December 2008 meeting, the ASB approved the proposed SAS for issuance as a final standard – contingent on the ARSC’s consideration of a companion SSARS. To avoid confusion as to whether the auditing literature or the SSARSs apply, the task force worked with the ARSC to develop a proposed SSARS, *Applicability of Statements on Standards for Accounting and Review Services*, that identifies the circumstances in which SSARSs does not apply to a review engagement and refers the accountant to the applicable SAS. The exposure draft, which was issued on November 17, 2008 with a comment period ending on January 9, 2009, is available for download by clicking [here](#).

The ARSC is meeting via public conference call on January 22, 2009 to consider the comment letters received and, if appropriate, vote to issue the proposed document as a final SSARS. If the ARSC votes to issue the proposed SSARS as a final document, it is expected that both the SAS and the SSARS will be issued on the same date in late January 2009.

Clarity and Convergence Resources on AICPA Audit and Attest Web Site

by *Andy Mrakovic*



Since 2007, the Auditing Standards Board’s (ASB) agenda has included various projects, designed to (1) converge the ASB’s audit, attest, and quality control standards with related standards of the International Auditing and Assurance Standards Board (IAASB) and (2) develop or redraft standards using clarity drafting conventions designed to make the standards easier to read and apply. Such projects have been termed “clarity projects.”

Some of the clarity drafting conventions include

- stating the objectives of the standard,
- including a section with definitions of technical terms used in the standard,
- presenting the requirements at the beginning of the standard followed by a separate section containing related application and other explanatory material.

Typically, a task force uses either a clarified exposure draft or a final standard issued by the IAASB as the base for the proposed U.S. standard. The task force adapts the IAASB standard for use in the U.S., and tries to make as few changes as possible. Changes are sometimes needed to reflect differences in the U.S. environment.

To familiarize readers with the clarity project, the Audit and Attest Standards staff has added a link from its homepage to a variety of resources related to the clarity project. To access the Audit and Attest Standards homepage go to:

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

Then click on the blue rectangle labeled “ASB Clarity Project and Convergence With International Auditing Standards,” to access

- final clarified Statements on Auditing Standards (SAS) issued to date,
- an information sheet, “Clarity and Convergence,” briefly explaining the clarity project,
- exposure drafts issued to date as part of the clarity project, and related supplementary material,
- a description of the soon-to-be-released clarified risk assessment standards,
- a paper, “International Convergence Plan,” describing the ASB’s process for converging its standards with those of the IAASB, and
- a December 2007 discussion paper entitled “Improving the Clarity of ASB Standards,” requesting feedback from readers on the clarity project.


In September 2008, the ASB issued its first clarified SAS, *The Auditor’s Communication With Those Charged With Governance* (Redrafted). After all of the SASs have been clarified, they will be issued in a single publication in codified format, all bearing the same effective date. Currently, the provisional effective date is December 15, 2010; however, that date may be deferred to provide sufficient time for finalization of the standards as well as training in, and updating of, firm methodologies.

In addition to clarity project material, the following additional information can be accessed from the Audit and Attest Standards homepage:

- All exposure drafts outstanding (clarity and nonclarity), issued by the ASB or the Accounting and Review Services Committee (To access the exposure drafts, go to the homepage and click on the blue rectangle labeled “Exposure Drafts of Proposed Statements.”)
- All final audit, attest, quality control, and accounting and review services standards issued as of June 1, 2008, their codified sections, and related interpretations (other than final clarified standards) (To access these exposure drafts, go to the homepage and click on the blue rectangle labeled “Authoritative Standards for Nonissuers.”)
- A summary of standards issued after June 1, 2008 (To access these standards, go to the homepage and click on the line “Summaries of Recently Issued Auditing and Attestation Standards.”)

ASB Issues Final Internal Control Standards

by Judith Sherinsky

 In October 2008 the Auditing Standards Board (ASB) issued Statement on Standards for Attestation Engagements (SSAE) No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. The new SSAE is applicable to integrated audits of nonissuers. An integrated audit is an examination of the design and operating effectiveness of an entity's internal control over financial reporting (internal control) integrated with an audit of the entity's financial statements. SSAE No 15 is effective for integrated audits for periods ending on or after December 15, 2008 and supersedes extant AT section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*.


SSAE No. 15 converges the standards practitioners use to report on a nonissuer's internal control with Public Company Accounting Oversight Board Auditing Standards No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*, which is applicable to issuers.

Some of the changes introduced by SSAE No. 5 are

- revising the scope of AT section 501 to make it applicable only to integrated audits,
- requiring that management's written assertion about the effectiveness of the entity's internal control accompany the practitioner's report,
- revising the definitions of the terms *material weakness* (the most severe type of control deficiency) and *significant deficiencies* (a control deficiency important enough to merit attention by those charged with governance but less severe than a material weakness),
- revising the list of deficiencies in internal control that are indicators of material weaknesses,
- eliminating the list of deficiencies that ordinarily would be considered at least significant deficiencies,
- providing a definition of internal control for reports on certain insured depository institutions under Section 112 of the Federal Deposit Insurance Corporation Improvement Act, and
- providing an illustrative written communication from the practitioner to management and those charged with governance of any significant deficiencies and material weaknesses.

SSAE No. 15 does not provide for engagements to examine only the suitability of the design of an entity's internal control, as did the previous AT section 501. Because some regulators request such reports, Interpretation No. 7 "Reporting on the Design of Internal Control" of AT section 101, *Attest Engagements*, has been issued and can be viewed at the following site:

http://www.aicpa.org/download/auditstd/Interpretation_No_7.pdf

 In conjunction with SSAE No. 5, the ASB issued SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which addresses the auditor's responsibilities for communicating internal control related matters identified in a financial statement audit to management and those charged with governance. Although the objectives of SSAE No. 5 and SAS No. 115 differ, the subject matter of both standards is internal control. For that reason, the terminology and definitions of the various kinds of control deficiencies and the guidance for evaluating deficiencies needed to be consistent in the two standards. Thus the ASB issued SAS No. 115 which is effective for audits of financial statements for periods ending on or after

December 15, 2009 with earlier implementation permitted. SAS No. 115 supersedes SAS No. 112 and bears the same title as SAS No. 112. A detailed summary of SSAE No. 5 and SAS No. 115 can be downloaded from the AICPA Audit and Attest Standards Web site by clicking [here](#).

New Members of the ASB

by *Judith Sherinsky*

At the end of October, stellar Auditing Standards Board (ASB) members Bob Dohrer, Keith Newton, Pat Piteo, and Doug Prawitt completed their terms. At the December 2008 ASB meeting, the four new members participated in the ASB's discussions as if they had always been there. Following is some information about their backgrounds which make them especially well suited for their new roles

Ernest F. Baugh, Jr. is national director of professional standards at Mayer Hoffman McCann P.C. He heads the firm's Professional Standards Group and serves on its Executive Committee and Board of Directors. He consults with all offices on issues related to technical accounting, auditing, independence, and SEC reporting matters. Prior to joining the firm in 2004, Ernie owned a consulting firm through which he provided assistance to local and regional CPA firms nationwide. Prior to that, he was associated with a regional firm as partner-in-charge of SEC reporting, and compliance with accounting and auditing standards.

Ernie has made significant contributions to the accounting profession through service on numerous committees and task forces including the AICPA's Accounting Standards Executive Committee and SEC Regulations Committee, the Financial Accounting Standards Board's Emerging Issues Task Force, and the Public Company Accounting Oversight Board's Standing Advisory Group. He is also a Council member, past member of the Board of Directors, and past president of the Tennessee Society of CPAs.

Thomas A. Ratcliffe is director of accounting and auditing at Wilson Price in Montgomery, AL and director emeritus of the School of Accountancy at Troy University. Tom served on the AICPA Accounting and Review Services Committee as a member from 2002-2005 and as chair from 2006-2008. He recently completed two terms on the AICPA Council. In 2007, he was appointed to the Private Company Financial Reporting Committee and during 2004-2005, was a member of the AICPA Private Company Financial Reporting Task Force. Tom worked with the AICPA Professional Issues Task Force in developing Practice Alert 2005-1 which addresses auditing variable interest entities. During 2002-2003, Tom was a member of the AICPA Group of 100. In 2001-2002, he served as president of the Alabama Society of CPAs and currently serves as a member of the auditing panel for the *Journal of Accountancy*.

Tom is a regularly-featured speaker at national and regional conferences as well as training programs for CPA firms and is the author of the Bisk Education Monthly Accounting and Auditing Report. He serves as accounting and auditing technical advisor to a number of associations of CPA firms. Tom earned his Ph.D. at the University of Alabama. He has published more than 100 technical works in accounting and auditing and received the Alabama Society of CPAs Outstanding Professional Educator Award for seven consecutive years.

Mark H. Taylor is a professor and the John P. Begley endowed chair in accounting at Creighton University. He received BS and MAcc degrees from Brigham Young University and a Ph.D. from the University of Arizona, prior to which he worked in public accounting as an auditor. Mark teaches assurance services and corporate governance courses at the undergraduate and graduate levels. He recently completed a one-year fellowship in the Professional Practice Group of the Office of the Chief Accountant at the Securities and Exchange Commission in Washington DC. He has held previous appointments at the University of South Carolina's Moore School of Business, Brigham Young University, and the University of Nebraska-Lincoln. Mark serves as audit committee chair or audit

committee member on three investment company boards, is an academic fellow at the National Corporate Governance Center, and consults regularly with large accounting firms and other organizations.

Mark's research primarily focuses on auditors' judgment and decision making and has been published in a number of leading academic research journals as well as prominent professional journals. Mark currently serves on the Executive Committee of the American Accounting Association's Auditing Section (Treasurer), and the AICPA Auditor's Report Task Force. He is a co-author of an academic commentary that helped foster the formation of the AICPA's Reliability Task Force, on which he also serves. Mark and his wife Rozann are the parents of five children—three boys and two girls. The oldest is 20 and the youngest is 2.

Phil D. Wedemeyer is a partner in the National Professional Standards Group of Grant Thornton LLP. Since joining the firm in August 2007, he has been involved in various aspects of the firm's participation in the SEC Advisory Committee on Improvements to Financial Reporting, the Center for Audit Quality, the AICPA, and the American Accounting Association. He also is a member of the firm's Risk Management Committee.

Immediately prior to joining Grant Thornton, he was director of the Office of Research and Analysis at the Public Company Accounting Oversight Board's (PCAOB). He joined the PCAOB in November 2003 as a member of its Division of Registrations and Inspections. He became a deputy director of that division where he formed and managed a risk analysis group, developed strategies for inspections of smaller audit firms, developed and supervised a special team of inspectors to perform the initial inspections of internal control audits, and reviewed and provided technical auditing and accounting advice to inspection teams. He also was active in the planning and conducting the PCAOB's academic symposium.

Prior to his time at the PCAOB, Phil was a partner at Arthur Andersen, SC, where he managed client relationships and audits of companies in a variety of industries, including environmental services, manufacturing, heavy engineering and construction, and oil-field services. He served in the firm's auditing procedures group in its world headquarters from 1983 to 1986.

Phil also served as adjunct professor of accounting at Rice University from 1993-1996 and as a member and director of the audit committee of Horizon Offshore and Powell Industries in 2002 and 2003. He holds a BBA in accounting from Baylor University (1971) and is a member of the AICPA, American Accounting Association, American Finance Association and MENSA.

Reliable Financial Reporting

by Mike Glynn

The Accounting and Review Services Committee (ARSC) is working on a project that would permit an accountant to review an entity's financial statements even though the accountant performs certain services for the entity that impair the accountant's independence. Examples of such services are preparing or assisting the client in preparing the entity's financial statements, performing bookkeeping or payroll functions, and internal control services. Currently, an accountant who is not independent, for any reason, is precluded from reviewing a client's financial statements under Statements on Standards for Accounting and Review Services (SSARs).

Although management and owners of smaller entities ordinarily are highly competent in performing their day to day activities, they may need assistance in preparing the entity's financial statements. Some users of small business financial statements note that they depend on the involvement of the

accountant in the financial reporting process to improve the reliability of the financial information. The accountant's integrity, expertise, and objectivity outweigh any concerns they may have about whether the accountant has maintained his or her independence with respect to the client for whom the accountant has performed certain services.

The need for a practitioner's involvement in the financial reporting process of smaller businesses is becoming more prevalent because of the increased complexity of accounting standards. Some smaller businesses can no longer prepare reliable financial statements without the accountant's assistance. Those that need reviewed financial statements for bank financing, vendor credit, construction bonding, or other reasons may need to hire a second accountant to review their financial statements, even though their regular accountant may be better suited for the job.

To reconcile the marketplace's expanded needs for an accountant's involvement in the financial reporting process of smaller businesses, the ARSC has begun to study and debate the relevant issues and has established the Reliability Task Force to facilitate this work. The Task Force is chaired by former ARSC Chair Thomas Ratcliffe, and includes former ARSC Chair Andrew Cohen, and current ARSC Chair Carolyn McNerney along with other practitioners, representatives from other AICPA standard setting bodies, academics, and a banker.

Based on its preliminary discussions, the contemplated changes to review standards would continue to preclude review services when independence is impaired as a result of family or investment-related circumstances. For example, if the accountant's independence is impaired because he or she has an investment in the client's business or because the accountant has family relationships with the client, the accountant would continue to be precluded from performing a review. But if independence is impaired because the accountant performs services for the client that add to the reliability of the financial statements, the accountant could perform a review provided that the accountant has appropriate evidence to support his or her review report and discloses in the report the services that were performed that impair independence.

ARSC is committed to ensuring that any potential changes continue to serve the public interest. Any proposed revisions to SSARs will go through full due process and exposure. The ARSC is working towards exposing a new standard in the second quarter of 2009.

For more information regarding the Reliability Project, please go to www.aicpa.org/reliability.

Meet the New ARSC

by Mike Glynn

At the completion of the 2007-2008 committee year, four members of the Accounting and Review Services' Committee (ARSC) completed their terms and rotated off the Committee. One such member is Thomas A. Ratcliffe who served on the ARSC for seven years – the last three of which he was chair. Tom's dedication to the profession and service to the ARSC over the years is deeply appreciated. To put the length of Tom's service into perspective, more Statements on Standards for Accounting and Review Services (SSARs) were issued during his tenure (SSARs Nos. 9–17) than were issued prior to his joining the ARSC (SSARs 1–8)! Tom continues to serve the profession as chair of the Reliability Task Force and member of the Auditing Standards Board.

The other departing members are Richard DelGaudio, Martin C. Levin, and Joseph A. Maffia. The AICPA is extremely grateful to all of these dedicated volunteers for the time they have devoted and the expertise they brought to the ARSC.

The new chair of the ARSC is **Carolyn H. Mc Nerney**. Although Carol is entering her first year as chair of the ARSC, 2008-2009 will mark her fourth year of service on the committee. Carol is the co-director of the Assurance Services Department at SSG Financial Services where she oversees audits, reviews, and compilations of privately owned businesses as well as audits of employee benefit plans. In addition to her client service responsibilities, Carol oversees quality control for the firm. Carol is a member of the AICPA Professional Issues Task Force and the Ohio Society of Certified Public Accountants, the Association for Corporate Growth, and the International Women's Insolvency & Restructuring Confederation, where she serves as treasurer. She is a magna cum laude graduate of Cleveland State University with a bachelor's degree in accounting. Carol currently resides in Hudson, OH with her two sons.

Gerald W. Burns was a partner in Moss Adams LLP where he focused on local government services before retiring from the firm in 2001. He currently provides accounting advice, assistance, and training to local governments, and also provides income tax services to individuals and small businesses. Jerry served in the U.S. Air Force before receiving a B.S. degree from Cal State University. He was on the Board of Directors of the Oregon Society of CPAs and is a former officer, director, and past-president of the Southern Oregon Chapter of the Oregon Society of CPAs. He was a member of the ASB from 2004-2007, and served on the AICPA task force that revised the State and Local Government Auditing Guide, the CPE Standards Subcommittee, and the Joint Task Force on Quality Control Standards.

Jerry served for 9 years on the Oregon Board of Accountancy and is a past chair of that Board. He also served for three terms on the Board of Directors of the National Association of State Boards of Accountancy (NASBA) where he chaired its Uniform Accountancy Act and CPE Advisory Committees. For his work in accounting regulation, *Accounting Today* recognized Jerry as one of the top 100 most influential people in the accounting profession from 1996 to 2001. Jerry was a recipient of the U.S. Small Business Administration's Accountant Advocate of the Year Award in 1987, the Oregon Society of CPAs Gold Medal for 1997, and NASBA's Distinguished Service Award for 2004. Jerry currently lives in Medford, Oregon with his wife Connie. They have two daughters, Stephanie and Ericka, and are grandparents of Austin, Spencer, and Bridget.

Rodney M. Harano is the accounting and tax director of CW Associates in Honolulu, HI. He began his career in public accounting with Grant Thornton. He subsequently started his own firm and since then has been a partner in other local accounting firms. Rodney served two 3-year terms on the AICPA Peer Review Board (including chairing the Education and Communication Task Force), served as an elected member of the AICPA Council and served on the PCPS Executive Committee. He is past president of the Hawaii Society of CPAs and has served on several state society committees in various capacities. Rodney earned a BBA in Accounting from the University of Hawaii and an MBA from Chaminade University of Honolulu. Rodney has a daughter and son.

Charles J. McElroy is the executive principal, quality at LarsonAllen LLP specializing in financial reporting and quality control. Chas is a contributing author to "*Guide to Compilation and Review Engagements*," for Practitioners Publishing Company. He currently is the chair of the AICPA's Professional Issues Task Force (PITF) and is a past member of the AICPA's Auditing Standards Board, Peer Review Board, Center for Public Company Audit Firms Peer Review Committee, Accounting Standards Executive Committee, CPA Exam Task Force and other task forces. Chas also is a member and past president of the Minnesota Society of CPAs and has been a member of various committees within the Society. Chas earned a B.S. degree in accounting from the University of St. Thomas. Chas and his wife Patty have five children and live near Minneapolis, MN.

James A. Smith serves as managing director of Smith, Jackson, Boyer & Bovard, PLLC, in Dallas, TX and oversees all aspects of the firm's practice quality. Jim has appeared as a featured commentator on all four Dallas/Ft. Worth network news stations. He was a featured business

commentator on KXAS, TV5; on the Texas Society of CPAs' (TSCPA) state wide tax television program, "CPAs on Call;" and on various radio news programs. Jim currently serves as immediate past chair of the TSCPA, having served as its chair for the 2007-2008 year, and as a member of its Executive Board and its Board of Directors and has been a member of various committees within the society. He is a member of the AICPA Council through 2011. Jim is a graduate of Southern Methodist University with a BBA in accounting and economics. Jim and his wife of 37 years, Charlie, live in Dallas and have three grown daughters, a grandson, and a granddaughter.

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 can be viewed by clicking [here](#).

Many of the projects on the ASB's current agenda are related to its clarity and convergence project, the objective of which is to converge U.S. generally accepted auditing standards for nonissuers with standards of the International Auditing and Assurance Standards Board. Information about that project is available on the AICPA Audit and Attest Standard's Web site by clicking [here](#).

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 will be revising AU section 329, *Analytical Procedures*, with the objective of converging that standard with International Standard on Auditing (ISA) 520 (Redrafted), *Analytical Procedures*, which was finalized in September 2008. The task force expects to present a draft of the proposed Statement on Auditing Standards (SAS) at the June 2009 meeting of the Auditing Standards Board (ASB).

Auditing Accounting Estimates Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Megan Zietsman). The task force will be combining (1) AU section 342, *Auditing Accounting Estimates*, and (2) AU section 328, *Auditing Fair Value Measurements and Disclosures*, and converging the content of the combined standard with ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, issued by the IAASB in February 2008. The task force is scheduled to discuss a draft of that document at the January 2009 ASB meeting.

Auditing Related Party Transactions Task Force (Staff Liaison: Mike Glynn; Task Force Chair: George P. Fritz). The task force is revising AU section 334, *Related Parties*, with the objective of converging that standard with ISA 550 (Revised and Redrafted), *Related Parties*. The task force plans to present a draft of a proposed SAS at the July 2009 ASB meeting.

Audit Issues Task Force (Staff Liaison: Ahava Goldman; 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.

Auditors' Reports–700 Task Force (Staff Liaison: Linda Delahanty; Task Force Chair: Dan Montgomery). This task force is developing the following three proposed SASs that would replace extant AU section 508, *Reports on Audited Financial Statements*:

- A SAS that combines the substance of ISA 700, *Forming an Opinion and Reporting on Financial Statements*, and ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, to be discussed at the January 2009 ASB meeting
- A SAS that converges with ISA 705, *Modifications To The Opinion In The Independent Auditor's Report*, to be discussed by the ASB in April 2009
- A SAS that converges with ISA 706, *Emphasis Of Matter Paragraphs And Other Matter Paragraphs In The Independent Auditor's Report*, to be discussed at the June 2009 ASB meeting

Auditor's Reports– 800 Task Force (Technical Advisor: Maria Manassas; Task Force Chair: Susan Jones). This task force is developing two proposed SASs that will converge relevant aspects of AU section 623, *Special Reports*, with

- ISA 800 (Revised & Redrafted), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and
- ISA 805 (Revised and Redrafted), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

The IAASB issued ISA 800 and ISA 805 as final standards in September 2008. In January 2009, the ASB will review and discuss a proposed SAS that converges AU Section 623 with ISA 800. The proposed SAS that converges other aspects of AU section 623 with ISA 805 will be discussed at a later point in time.

Auditor's Report Research Task Force (Staff Liaison: Linda Delahanty; 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 four 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 more clearly communicate the intended message. The first phase of the research is expected to be completed in the first half of 2009.

Clarity Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: John Fogarty). The task force has developed an exposure draft, issued in September 2008, which contains the following two components:

- *Proposed Preface to Codification of Statements on Auditing Standards, Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards* This component proposes a replacement for AU section 150, *Generally Accepted Auditing Standards*, in the form of principles that govern the audit. The principles would be
 - placed in a preface to the AU sections,

- supported by the objectives and requirements of the individual SASs, and
 - categorized as responsibilities, performance, and reporting principles.
- *Proposed Statement on Auditing Standards, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.* The proposed SAS would supersede (1) AU sections 110, “Responsibilities and Functions of the Independent Auditor;” 210, “Training and Proficiency of the Independent Auditor;” 220, “Independence;” and 230, “Due Professional Care in the Performance of Work,” of SAS No. 1, *Codification of Auditing Standards and Procedures* (2) SAS No. 95, *Generally Accepted Auditing Standards*, and (3) SAS No. 102, *Defining Professional Responsibilities in Statements on Auditing Standards*. It would redraft these superseded AU sections and standards in accordance with the clarity drafting conventions and converge them with ISA 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

The comment period for the exposure draft ends on December 30, 2008. The exposure draft and related supplementary material can be accessed from the Audit and Attest Standards Web site by clicking [here](#).

Compliance Auditing Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: George Rippey). In December 2008, the ASB issued an exposure draft, *Compliance Audits*, that would supersede extant AU section 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The exposure draft responds to one of the recommendations in the June 2007 “Report on National Single Audit Sampling Project,” by the President’s Council on Integrity and Efficiency, that the AICPA revise AU section 801. The report contains the findings of a federal study of the quality of audits performed under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The exposure draft can be downloaded from the Audit and Attest Standards web site by clicking [here](#). The PCIE report can be viewed by clicking [here](#).

Confirmations Task Force (Technical Advisor: Mindy Montgomery; Task Force Chair: Megan Zietsman). The task force is clarifying AU section 330, *The Confirmation Process*, and converging it with ISA 505, *External Confirmations*. The ASB discussed a draft of the proposed SAS at its December 2008 meeting as well as related issues. The task force expects to present a revised draft at the April 2009 ASB meeting and to ask the ASB to vote to issue it as an exposure draft.

Financial Statements Prepared for Use Outside the U.S. (Technical Advisor: Michael Adasczik; Task Force Chair: Walt Conn). This task force is redrafting AU section 534, *Financial Statements Prepared for Use in Other Countries*, in accordance with the clarity drafting conventions. Unlike most other auditing standards that are being converged to a corresponding ISA, there is no ISA that corresponds to AU section 534. The proposed auditing standard would address engagements in which the auditor is reporting on a U.S. entity’s financial statements that have been prepared in conformity with the financial reporting framework adopted in another country for use outside the U.S. At its December 2008 meeting the ASB discussed a draft of the proposed SAS and will discuss a revised draft at its January 2009 meeting.

Fraud Task Force (Staff Liaison: Andy Mrakovic; Task Force Chair: Tom Stemplar). This task force is revising AU section 316, *Consideration of Fraud in a Financial Statement Audit*, with the objective of converging that standard with ISA 240 (Redrafted), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*. At its December 2008 meeting, the ASB voted to ballot a draft of the proposed SAS for exposure.

Going Concern Task Force (Staff Liaison: Judith Sherinsky; Task Force 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 an 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. On October 8, 2008 the Financial Accounting Standards Board issued an exposure draft of a proposed Statement of Financial Accounting Standards that would provide guidance on the preparation of financial statements as a going concern and on management's responsibility to evaluate a reporting entity's ability to continue as a going concern. It also would require certain disclosures when financial statements are not prepared on a going concern basis or when there is substantial doubt about an entity's ability to continue as a going concern. The task force last presented a draft of the proposed SAS at the ASB's January 2008 meeting and is scheduled to present a revised draft, reflecting the FASB's going concern accounting standard, at the July 2009 ASB meeting.

Group Audits Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Robert Dohrer). The task force is charged with clarifying and converging AU section 543, *Part of the Audit Performed by Other Independent Auditors* with ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. The ASB concluded that the revised standard should continue to permit the auditor to make reference in the auditor's report to an audit performed by another auditor. The task force will bring a draft of the proposed standard to the ASB in January 2009.

Initial Audit Engagements Task Force (Technical Advisor: Julie Anne Dilley; Task Force Chair: Andrew Mintzer). The task force has developed a new proposed SAS combining the guidance in ISA 510 (Redrafted), *Initial Audit Engagements—Opening Balances*, and relevant guidance from AU Section 315, *Communications Between Predecessor and Successor Auditors*. The proposed SAS also explicitly clarifies that a reaudit is a type of initial audit engagement. At its December 2008 meeting, the ASB voted to ballot the proposed SAS for exposure.

Interim Reviews Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Jorge Milo). At its December 2008 meeting, the ASB approved for final issuance the proposed SAS, *Interim Financial Information*. The proposed SAS amends extant AU section 722, of the same name, to accommodate reviews of interim financial information of nonissuers, including companies offering securities pursuant to SEC Rule 144A or participating in private equity exchanges. The proposed SAS indicates that if certain conditions are met, a review of the interim financial information of a nonissuer should be performed in accordance with AU section 722, rather than Statements on Standards for Accounting and Review Services (SSARs). The proposed SAS also removes from AU section 722 the guidance for reviews of interim financial information of issuers since such guidance appropriately resides in the auditing standards of the Public Company Accounting Oversight Board. The issuance of the proposed SAS is contingent on the ARSC's consideration of a companion SSARS that would exclude from the SSARSs those engagements that would be covered by the proposed SAS. For additional information about this project, see the article on page 1, "Reviews of Interim Financial Information."

Internal Audit Task Force (Staff Liaison: Andy Mrakovic; Task Force Chair: Megan Zietsman). This task force will be revising AU section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, with the objective of converging that standard with ISA 610 (Redrafted), *Using the Work of Internal Auditors*, which was finalized in June 2008. The task force expects to present a draft of the proposed SAS at the July 2009 ASB meeting.

Internal Control Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: Keith O. Newton). In October 2008 the ASB issued SSAE No. 15, *Reporting on an Entity's Internal Control Over*

Financial Reporting, and SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. The article on page 4, "ASB Issues Final Internal Control Standards," provides additional information about this project.

International Auditing Standards Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Susan S. Jones). The objective of this task force is to support the development of international auditing standards. Task force 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 task force will be on March 4-5, 2009.

Laws and Regulations (Technical Advisor: Tania Sergott; Task Force Chair: George Fritz). At its October 2008 meeting, the ASB voted to ballot a proposed SAS, *Consideration of Laws and Regulations in a Financial Statement Audit*, for issuance as an exposure draft. The proposed SAS would supersede extant AU section 317, *Illegal Acts by Clients*, and is based on newly issued ISA 250 (Redrafted), *Consideration of Laws and Regulations in an Audit of Financial Statements*. When the exposure draft is ready for issuance, it will be posted to the following Web site:

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Exposure+Drafts+of+Proposed+Statements/>

Management Representations Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: Keith O. Newton). The task force is revising AU section 333, *Management Representations*, to achieve convergence with revised and redrafted ISA 580, *Written Representations*. The task force also will be revising portions of AU section 311, *Planning and Supervision*, to achieve convergence with ISA 210, (Redrafted), *Agreeing the Terms of Audit Engagements*, which was balloted for final issuance at the December 2008 IAASB meeting

Quality Control Standards Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: David Brumbeloe). The task force is 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*. The task force also is redrafting Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control*, in accordance with the clarity drafting conventions. The task force will bring drafts of both proposed standards to the ASB in January 2009.

Required Supplementary Information/Other Supplementary Information Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Jeffery N. Markert).). At its December 2008 meeting, the ASB voted to ballot to expose for public comment the following proposed SASs: (1) *Required Supplementary Information*; (2) *Other Information in Documents Containing Audited Financial Statements*; and (3) *Other Information in Relation to the Financial Statements as a Whole*. The proposed SASs would replace the guidance in AU section 550, *Other Information in Documents Containing Audited Financial Statements*, AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, and AU section 558, *Required Supplementary Information*.

Risk Assessments Task Force (Staff Liaison: Hiram Hasty; Task Force Chair; Darrel Schubert). At the October 2008 meeting, the ASB voted to expose for comment the risk assessment standards which have been redrafted as part of the Clarity Project. The exposure drafts are expected to be released in January 2009 and include

- Proposed SAS 106 (Redrafted), *Audit Evidence*,
- Proposed SAS 107 (Redrafted), *Materiality in Planning and Performing an Audit*,
- Proposed SAS 108 (Redrafted), *Planning an Audit*,
- Proposed SAS 109 (Redrafted), *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*,
- Proposed SAS 110 (Redrafted), *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*,
- Proposed SAS, *Evaluation of Misstatements Identified During the Audit (new)*.

The comment period for the exposure draft is expected to end on April 30, 2009.

Service Organizations Task Force (Staff Liaison: Judith Sherinsky; Task Force Chair: Walt Conn). In November 2008 the ASB issued an exposure draft of a proposed SAS, *Audit Considerations Relating to an Entity Using a Service Organization*, and an exposure draft of a proposed SSAE, *Reporting on Controls at a Service Organization*. The two standards would replace AU Section 324, *Service Organizations*, which currently provides guidance to auditors of the financial statements of entities that use service organizations (user auditors) as well as auditors reporting on controls at service organizations (service auditors). The exposure drafts present the guidance for user auditors in a SAS and the guidance for service auditors in an SSAE, as do the IAASB's December 2007 exposure drafts of ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*, and International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Third-Party Service Organization*. The task force is scheduled to present revised drafts of the proposed SAS and SSAE at the April 2009 ASB meeting. The exposure drafts and related supplementary material can be accessed by clicking [here](#). Comments on the exposure drafts are due by February 17, 2009. The IAASB and ASB service organizations task forces will conduct a joint meeting in March 2009 to discuss issues related to the SSAE and ISAE.

Subsequent Events (Technical Advisor Maria Manassas; Task Force Chair: Sheila Birch). This task force is developing a proposed SAS, *Subsequent Events*, that combines the requirements and guidance in ISA 560 (Redrafted), *Subsequent Events*, and the relevant content from

- AU Section 508, *Reports on Audited Financial Statements*,
- AU Section 530, *Dating of the Independent Auditor's Report*,
- AU Section 560, *Subsequent Events*, and
- AU Section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

The IAASB issued ISA 560 (Redrafted) as a final standard in April 2008. The ISAs define subsequent events as "events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report." At the October 2008 ASB meeting, the task force presented a proposed draft of the standard and related issues. The task force will present a revised draft of the proposed SAS at the January 2009 ASB meeting, and ask the ASB to vote to expose the draft for comment.

Using the Work of a Specialist Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Darrel Schubert). The task force will be revising AU section 336, *Using the Work of a Specialist*, by replacing it with two proposed SASs. One SAS will converge with ISA 620 (Revised and Redrafted), *Using the Work of an Auditor's Expert*, which was issued in August 2008 and addresses situations in which the auditor engages an expert. The other SAS will focus on situations in which an auditor uses as audit evidence the work product of a nonemployee specialist engaged by management, and will expand on the IAASB's amendment to ISA 500 (Redrafted), *Audit Evidence*.

Other Activities

Accounting and Review Services Committee (ARSC) (Staff Liaison: Mike Glynn; Committee Chair: Carolyn H. McNerney). 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 22, 2009 via conference call. For detailed information about activities of the ARSC, see the article on page 1, "Reviews of Interim Financial Information," page 6, "Reliable Financial Reporting," and page 7, "Meet the ARSC." Highlights of past and current ARSC meetings can be viewed on the Audit and Attest Standards Web site by clicking [here](#).

ARSC's Reliability Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Thomas A. Ratcliffe). The objective of the task force is to expand the applicability of the compilation and review literature to enable an accountant who maintains his or her objectivity to review an entity's financial statements, even though the accountant's independence may be impaired because he or she performed certain services for the entity, such as assisting in preparing the entity's financial statements. For additional information about this project, see the article on page 6 "Reliable Financial Reporting." At the April 2009 ARSC meeting, the task force plans to present drafts of proposed SSARs related to this project, and ask the ARSC to vote to expose the SSARs for public comment. The ARSC plans to issue final standards during the second half of 2009.

Auditing Standards Committee of the American Accounting Association (AAA) (ASB/AICPA Liaisons: Douglas Prawitt and Chuck Landes; 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. The current chair of the AAA's Auditing Standards Committee is Thomas M. Kozloski of Wilfrid Laurier University.

International Auditing and Assurance Standards Board (IAASB) (U.S. Member: John A. Fogarty; U.S. Technical Advisor: Chuck Landes). The next meeting of the IAASB will be on March 16–19, 2008 in New York, NY. Copies of the International Federation of Accountants' outstanding exposure drafts; 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. All alerts that have not been superseded are published annually in the AICPA Technical Practice Aids and can be viewed by clicking [here](#).

XBRL Assurance Task Force (Staff Liaison: Ami Beers, Judith Sherinsky; Task Force Chair: Bill Titera). Extensible business reporting language (XBRL) is a format for electronically tagging data that enables users to efficiently access that data. For example, if companies in a specified industry submit their financial statements in XBRL format, and an analyst wishes to compare revenue for those companies, the analyst could quickly extract that information.

On December 17, 2008, the SEC voted to adopt new rules that would require public companies to provide an XBRL version of their financial statements with their SEC filings. Under the new rules, the 500 largest U.S. public companies and foreign private issuers listed with the SEC would be required to provide financial information using XBRL, beginning with quarterly filings after June 15, 2009. Smaller companies, depending on their size and filing status, would begin reporting in XBRL in 2010 or 2011, with all public companies filing in XBRL within three years. The SEC will provide filers with limited liability for their XBRL financial statements for a period that will phase out over two years; the limited liability provision would terminate completely on Oct. 31, 2014. Although the SEC rules do not require auditor involvement, and the SEC has provided for a limited liability period, concerns by issuers about the reliability of the data included in their XBRL financial statements may result in requests by management or audit committees for some auditor involvement with XBRL financial statements. As a result the task force is developing performance and reporting guidance to assist practitioners reporting on XBRL financial statements.

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, CL—Discussion of comment letters, FI—Vote to ballot a document for final issuance, SU—Status Update.

January 12-15, 2009 ASB Meeting San Antonio, TX	
Project	Expected ASB Action
Auditor's Reports – ISA 700 Series	DD
Special Reports – ISA 800 Series	DD
Quality Control – SQCS and SAS	DD
Estimates/Fair Values	DD
Subsequent Events and Subsequent Discovery	ED
Group Audits	DD
Audit Sampling	ED
AICPA Technical Issues Committee	ASB Liaison Meeting

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 (SAs)		
Title (Product Number)	Issue Date	Effective Date
SAS No. 115, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (060710)	October 2008	Effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.
Interpretations of Statements on Auditing Standards		
Title	Issue Date	
Interpretations of AU section 508, <i>Reports on Audited Financial Statements</i>		
Interpretation No. 14, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and in Accordance With International Standards on Auditing" (AU sec. 9508.56–.59)	Revised May 2008	
Interpretation No. 19, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board" (AU sec. 9508.93–.97)	Issued May 2008	
Interpretations of AU section 534, <i>Reporting on Financial Statements Prepared for Use in Other Countries</i>		
Interpretation No. 2, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board" (AU sec. 9534.05–.08)	Issued May 2008	
Interpretation No. 3, "Financial Statements Audited in Accordance With International Standards on Auditing" (AU sec. 9534.09–.11)	Issued May 2008	

Statements on Standards for Attestation Engagements (SSAEs)		
Title (Product Number)	Issue Date	Effective Date
SSAE No. 15, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> (023034)	October 2008	Effective for integrated audits for periods ending on or after December 15, 2008. Earlier implementation is permitted.

Interpretations of Statements on Standards for Attestation Engagements	
Title	Issue Date
Interpretation of AT section 101, <i>Attest Engagements</i>	
Interpretation No. 7 “Reporting on the Design of Internal Control” (AU sec. 9101.59–.69)	December 2008

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. 17, <i>Omnibus Statement on Standards for Accounting and Review Services—2008</i> (060655)	February 2008	Effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008. Early application is permitted.
SSARS No. 16, <i>Defining Professional Requirements in Statements on Standards for Accounting and Review Services</i> (060654)	December 2007	Effective upon issuance.

Interpretations of Statements on Standards for Accounting and Review Services (SSARSs)	
Title	Issue Date
Interpretations of AR section 100, <i>Compilation and Review of Financial Statements</i>	
Interpretation No. 31, “Preparation of Financial Statements for Use by an Entity’s Auditors” (AR sec. 9100.136-.137)	Issued December 2008
Interpretation No. 24, “Reference to the Country of Origin in a Review or Compilation Report” (AR sec. 9100.93-.94)	Revised May 2008
Interpretation No. 30, “Considerations Related to Financial Statements Prepared in Accordance With International Financial Reporting Standards and Compilations and Reviews Performed in Accordance With International Standards” (AR sec. 9100.130-.135)	Issued May 2008

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