

In Our Opinion...

The Newsletter of the AICPA Audit and Attest Standards Team

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ASB Issues Internal Control Exposure Drafts

by Judith Sherinsky

The Auditing Standards Board (ASB) has issued an exposure draft of a proposed Statement on Standards for Attestation Engagements that would replace AT section 501, *Reporting on an Entity's Internal Control Over Financial Reporting* (AT 501). Unlike existing AT 501, the proposed standard would be applicable only to integrated audits (engagements consisting of an audit of an entity's financial statements and an examination of its internal control over financial reporting). Currently, AT 501 permits a practitioner to perform an examination of an entity's internal control even if the financial statements have not been audited.

The term *integrated audit* and much of proposed AT 501 is based on Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5, *An Audit of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements* (AS No. 5). As standard setters adopt a global rather than a national perspective, it becomes essential to avoid unnecessary differences between standards of the AICPA, PCAOB, and International Auditing and Assurance Standards Board (IAASB). Accordingly, for the most part, the proposed standard diverges from AS No. 5 primarily in the terminology used for nonissuers. With respect to international standards, proposed AT 501 conforms the definition of the term *significant deficiency* (a designation of the severity of a control deficiency) with the definition of that term in the IAASB's exposure draft of

International Standard on Auditing (ISA) 265, *Communicating Deficiencies in Internal Control*.

The task force that drafted the proposed standard includes observers representing the Government Accountability Office, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and Federal Reserve Board. These representatives support the convergence of AT 501 with AS No. 5 and believe that the revised standard will enhance the ability of practitioners to identify and evaluate deficiencies in the internal control of nonissuers. An example of a constituency that will be affected by the revision of AT 501 is nonissuer insured depository institutions with total assets of \$1 billion or more at the beginning of the institution's fiscal year. These institutions are required to engage an independent public accountant to examine and report on management's assertion concerning the institution's internal control over financial reporting in accordance with generally accepted standards for attestation engagements.

An auditing standard that is related to AT 501 is AU section 325, *Communicating Internal Control Related Matters Identified in an Audit* (AU 325). AU 325 provides guidance to auditors, in the context of a financial statement audit, on communicating to management and those charged with governance material weaknesses (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). Although the objectives of AT 501 and AU 325 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 needs to be consistent in the two standards. With that in mind, the ASB concurrently issued an exposure draft of a proposed SAS that makes these conforming changes to AU 325.

A summary of the AT 501 exposure draft, *An Examination of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of Its Financial Statements*, can be viewed on the AICPA web site by clicking [here](#). A summary of the AU 325 exposure draft, *Communicating Internal Control Related Matters Identified in an Audit*, can be viewed on the same site by clicking [here](#). Each exposure draft can be downloaded from the summary page.

GAAP Hierarchy in AU 411 to Apply Only to Governmental Entities

by Andy Mrakovic

At its May 2008 meeting, the Auditing Standards Board voted to ballot for final issuance a Statement on Auditing Standards (SAS) that will delete the hierarchy of generally accepted accounting principles (GAAP) for nongovernmental entities from AU section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The SAS dovetails with the Financial Accounting Standards Board's (FASB) May 2008 issuance of Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which establishes the GAAP hierarchy for nongovernmental entities in the FASB's literature.

Statement No. 162 reflects the FASB's belief that the GAAP hierarchy should be directed specifically to management of an entity rather than to its auditor (as it is in AU section 411) since it is management, rather than the entity's auditor, that is responsible for selecting accounting principles for financial statements presented in conformity with GAAP. That being the case, the GAAP hierarchy should reside in the accounting literature established by the FASB.

In a similar vein, in January 2008, the Public Company Accounting Oversight Board (PCAOB) adopted Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* which removes the GAAP hierarchy from the PCAOB's interim auditing standards.

Sharon Walker Returning to New Zealand

by Judith Sherinsky

Sharon Walker, CPA, a technical manager on the AICPA Audit and Attest Standards Team, will be returning home to New Zealand (NZ) in August. Sharon has been an ardent advocate for convergence of AICPA audit and attest standards with those of the International Auditing and Assurance Standards Board (IAASB) and has greatly assisted the Auditing Standards Board in moving toward convergence.

Before coming to the AICPA, Sharon was a manager at Deloitte in Wellington, NZ and then in New York. Sharon, her husband Stephen (Director of Operations at the International Federation of Accountants), and three children: Michaela (8), Matthew (7), and Catherine (1), will be returning to the Wellington area, most likely to Paraparaumu, a small coastal town north of Wellington.



Sharon's role as U.S. technical adviser to the IAASB has taken her to cities throughout the world, including Lima, Hong Kong, Cape Town, Paris, Athens, Brussels, London, Madrid, Warsaw, Montreal, and Toronto.

In addition to being a CPA, mother of three, and world traveler, Sharon is a marathon runner and ran in the New York City Marathon in 1997, 1998, 2003, 2004; the Boston Marathon in 1999; the Christchurch, NZ marathon in 2002; and the Chicago Marathon in 2005. She will be running in this year's New York City Marathon.

Sharon has left an indelible imprint on AICPA audit, attest, and quality control standards as a result of her work on the clarity project, the objective of which is to make standards understandable, clear, and capable of being consistently applied by those who perform engagements.

SSARS No. 17 and New Exhibits Clarify SSARSs

by Mike Glynn

In February 2008, the Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 17, *Omnibus Statement on Standards for Accounting and Review Services—2008*. This standard is the last of three consecutive standards intended to clarify the compilation and review literature and thereby make it easier for practitioners to use. Specifically, SSARS No. 17:



- Replaces the term *nonpublic entity* with the term *nonissuer* throughout SSARSs to conform the terminology in SSARSs with the terminology used by other standard setters. In addition, SSARS No. 17 now cites the definition of *issuer*, as stated in section 3 of the Securities Exchange Act of 1934, and indicates that nonissuers are all entities other than those defined as issuers.

- Revises the definition of *compilation of financial statements* to indicate that the information presented in the form of financial statements is the representation of management, and the accountant does not express any assurance on the financial statements. This revision also is reflected in a new section entitled “Objective of a Compilation Engagement” in SSARS No. 1, *Compilation and Review of Financial Statements*, and in the illustrative engagement letters. The revision clarifies for practitioners and their clients what a compilation entails.
- Revises the definition of the term *review of financial statements* to indicate that the objective of a review engagement is to express limited assurance that there are no material modifications that should be made to the financial statements for them to be in accordance with generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA). This revision also is reflected in a new section entitled “Objective of a Review Engagement” in SSARS No. 1.
- Revises AR section 100.26 to create an unconditional requirement for the accountant to perform all of the following procedures in a review engagement: (1) apply analytical procedures to the financial statements; (2) make inquiries of management or other company personnel, or both of these parties; and (3) obtain representations from management for all financial statements and periods covered by the accountant’s review report. AR section 100.31 also is revised to reflect this requirement.
- Introduces definitions of the terms *those charged with governance* and *management* in AR section 100.04.
- Attempts to reduce diversity in practice, particularly for engagements to compile financial statements not intended for third party use, by indicating in AR section 100.04, 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.”
 - Third parties are all persons including those charged with governance except for members of management.
- Revises the guidance related to the dating of management’s written representations and the accountant’s review report to indicate that management’s representations should be made as of the date of the accountant’s review report because:
 - Review procedures include obtaining representations from management that it has taken responsibility for all financial statements and periods covered by the accountant’s review report;
 - The accountant’s review report should be dated as of the completion of the accountant’s review procedures; and
 - The accountant is concerned with events occurring through the date of the review report that may require adjustment to, or disclosure, in the financial statements.
- Provides guidance on the accountant’s consideration in compilation and review engagements of (1) an entity’s ability to continue as a going concern and (2) subsequent events. Interpretation

No. 29, "Reporting on an Uncertainty, Including an Uncertainty About an Entity's Ability to Continue as a Going Concern," of AR section 100 has been revised to reflect these changes and can be viewed by clicking [here](#).

- Deletes the word *primarily* from the guidance on supplementary information in AR section 100.83, which stated that "the review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles."
- Incorporates nonauthoritative guidance regarding analytical procedures in a review engagement as an exhibit to SSARSs in response to comments from practitioners who found the guidance in the issues paper, "Analytical Procedures in a Review Engagement," to be useful.

SSARS No. 17 is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008. Early application is permitted.

In addition to Exhibit A, "Analytical Procedures in a Review Engagement," the AICPA has separately issued Exhibit B, "Going Concern Considerations," and Exhibit C, "Subsequent Events Considerations," to provide nonauthoritative accounting guidance to assist practitioners performing compilation and review engagements. These exhibits can be viewed by clicking [here](#).

To obtain copies of SSARS No. 17 (product number 060655), please refer to page 19 for ordering information.

Risk Assessment TPAs

by *Andy Mrakovcic*

Since the issuance of Statements on Auditing Standards Nos. 104–111 ("the Risk Assessment Standards"), the Audit and Attest Standards Team has received numerous questions about how to implement these new standards. In response to these questions, staff of the Audit and Attest Standards Team developed risk assessment Qs and As that were included in the Fall 2007 issue of *In Our Opinion*; they can be viewed by clicking [here](#). Since then, these Qs and As have been further refined and have been issued as Technical Practice Aids (TPAs).

There currently are 13 TPAs that address various issues identified by practitioners. Following is a brief summary of six of the TPAs (8200.05–10); the remaining TPAs will be covered in the next issue of *In Our Opinion*. The full text of all the TPAs is available on the Audit and Attest Standards Team Web page and can be viewed by clicking [here](#).

Q. If an auditor anticipates that the entity does not have effective internal control, is the auditor required to obtain an understanding of internal control even if he or she intends to design a substantive audit approach and not rely on controls?

A. Yes. AU section 314, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, requires the auditor to obtain an understanding of internal control sufficient to assess the risk of material misstatement of the financial statements. That understanding involves considering whether controls, individually or in combination, are capable of effectively preventing or detecting and correcting material misstatements. After obtaining the required understanding, the auditor

may find that controls are not effectively designed or that controls are missing. In those circumstances, the auditor would assess control risk at maximum and then plan and perform substantive procedures to appropriately respond to the identified risks. During the risk assessment process, the auditor may identify control deficiencies and determine whether they are, individually or in combination, significant deficiencies or material weaknesses that must be communicated in writing to management and those charged with governance. In situations in which the auditor adopts a substantive audit approach, the auditor needs to be satisfied that performing substantive procedures alone will enable the auditor to design an appropriate audit strategy and perform procedures to obtain sufficient appropriate audit evidence to support his or her opinion.

Q. AU section 318, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, requires the auditor to perform tests of controls when the auditor's risk assessment includes an expectation of the operating effectiveness of controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the relevant assertion level. What does the phrase "expectation of the operating effectiveness of controls" mean?

A. The phrase "expectation of the operating effectiveness of controls" means that the auditor's understanding of the five components of internal control has enabled him or her to initially assess control risk at less than maximum, and that the auditor's strategy contemplates a combined approach of designing and performing tests of controls and substantive procedures. The auditor's initial assessment of control risk is preliminary and subject to the satisfactory results of tests of the operating effectiveness of those controls.

Q. May the auditor follow an all-substantive audit approach even if the auditor's understanding of internal control causes him or her to believe that controls are effectively designed?

A. Yes. After the auditor identifies and assesses the risks of material misstatement, the auditor's decision about whether to test the operating effectiveness of controls may be considered within a cost-benefit framework. If the auditor believes that the cost of testing the operating effectiveness of controls would be greater than the benefits to be derived from such testing—both in terms of audit efficiency and effectiveness—the auditor may adopt an audit strategy (or modify a preliminary strategy) that excludes testing controls. If the auditor believes that testing the operating effectiveness of controls would not be effective or efficient, the auditor should perform substantive procedures that respond to the assessed risks for specific assertions.

Q. In smaller entities the control environment might be less formal than it is in large entities. Is the auditor required to obtain an understanding of these less formal controls, and at what stage in the audit should these controls be tested?

A. Even in audits of smaller entities, auditors may rely on controls that are part of the control environment to determine the nature, timing, and extent of further audit procedures. If an auditor chooses to rely on these controls, the auditor is presumptively required to test those controls.

It is preferable to evaluate the control environment early in the audit process because the results of the auditor's evaluation of these controls could affect the nature, timing, and extent of other planned audit procedures. For example, weaknesses in the control environment may undermine the effectiveness of other control components and be negative factors in the auditor's assessment of the risks of material misstatement, in particular in relation to the risks of fraud.

Q. Paragraph .21 of AU section 312, Audit Risk and Materiality in Conducting an Audit, defines inherent risk as “the susceptibility of a relevant assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls.” If the auditor’s methodology involves making separate assessments of inherent risk and control risk, and the auditor assesses inherent risk as low, may the auditor ignore the assessment of control risk in his or her assessment of the combined risks of material misstatement?

A. No. The auditor is required to assess the combined risk of material misstatement; therefore, the auditor may not ignore control risk regardless of his or her assessment of inherent risk. Inherent risk (the susceptibility of a relevant assertion to a misstatement that could be material) is assessed without considering the effect of any related controls. Although auditing standards do not require separate assessments of inherent risk and control risk, they do require an assessment of the risk of material misstatement that includes control risk.

Q. Is defaulting to the maximum control risk level without documenting the basis for that conclusion still permitted under AU section 314 as it was under the superseded AU section 319, Consideration of Internal Control in a Financial Statement Audit?

A. No. AU section 314 requires the auditor to obtain a sufficient understanding of the client’s internal control to assess the risk of material of material misstatement. As the auditor obtains the required understanding of internal control, he or she may identify material weaknesses in the design of controls and, as a result, may assess control risk at maximum for some financial statement accounts and relevant assertions. Also, after identifying and assessing the risk of material misstatement at the assertion level, the auditor may adopt a substantive audit strategy because the costs of testing the operating effectiveness of controls exceed the benefits. In this circumstance, the auditor may assess control risk at maximum. Finally, the auditor might initially assess control risk at less than maximum only to find out later, after testing the operating effectiveness of controls, that controls were not effective and would then reassess control risk at maximum.

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.

Auditing 403(b) Retirement Plans

Beginning with 2009 Form 5500 filings, employee benefit plans under section 403(b) of the Internal Revenue Code that are sponsored by charitable organizations and covered under the Employee Retirement Income Security Act of 1974 will be subject to the same reporting and audit requirements that currently exist for section 401(k) plans.

Many plans face significant challenges in establishing plan accounting records and proper controls, identifying all participant accounts to be included as plan assets, determining beginning account balances (i.e., comparative balances are also required as of December 31, 2008 for calendar year plans), obtaining other financial information to be included in the plan’s financial statements, and obtaining an unqualified opinion on the plan’s financial statements from the independent auditor.

A joint task force of the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) Executive Committee and the Employee Benefit Plan, Not-for-Profit and Health Care Expert Panels has

developed resources to assist auditors of not-for-profits, charities, health care entities, and schools that sponsor 403(b) retirement plans in learning about the new requirements, which can be accessed from the EBPAQC Web site by clicking [here](#).

Proposed, Redrafted, and Revised

by Judith Sherinsky

Many of the projects of the ASB entail converging AICPA audit, attest, and quality control standards with those of the International Auditing and Assurance Standards Board (IAASB). For that reason, standards of the IAASB are frequently cited in documents prepared by staff of the Audit and Attest Standards Team.

The terms **proposed**, **revised**, and **redrafted**, individually and in combination, are used by the IAASB to describe the status of a standard or the nature of the changes that have been made to the standard. To assist readers in understanding these terms, the following are informal definitions of these terms.

Redrafted: A redrafted standard is one that has not been substantively changed. The standard has been reorganized in “clarity format” which means that it uses certain wording conventions and contains the following sections in the following order:

- **Introduction.** The scope of the standard, the effective date, and sometimes other essential material.
- **Objectives.** The auditor’s ultimate goal in applying the requirements and the application and explanatory material included in the standard.
- **Definitions.** Definitions of the technical terms used in the standard.
- **Requirements.** Procedures the auditor is presumptively required to perform. AICPA standards use the word *should* and standards of the IAASB use the word *shall* to indicate requirements.
- **Application and other explanatory material.** Material that explains how an auditor can meet the requirements.

Revised. A standard to which substantive changes have been made that affect practice.

Proposed. A standard that is being formulated, being exposed for comment, or has been exposed for comment and is not yet final.

A standard may be proposed, redrafted, and revised, at the same time. A standard that was redrafted or revised (or both) retains that designation until the standard becomes effective.

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](#).

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 International Standard on Auditing (ISA) 520 (Redrafted), *Analytical Procedures*. In March 2008, the ASB submitted a comment letter to the International Auditing and Assurance Standards Board (IAASB) on the December 2007 exposure draft of ISA 520 (Redrafted) which is expected to be finalized at the September 2008 IAASB meeting.

Auditing Accounting Estimates Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Megan Zietsman). The task force will be combining AU section 342, *Auditing Accounting Estimates*, and AU section 328, *Auditing Fair Value Measurements and Disclosures*, and revising the combined standard with the objective of converging it with ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, issued by the IAASB in December 2006. The task force is scheduled to discuss issues related to the project at the August 2008 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. The AITF met on June 24, 2008; the next meeting of the task force will be on August 13, 2008.

Auditors' Reports Task Force (Staff Liaison: Linda Delahanty; 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. The ASB is expected to consider issues related to the redrafting at its July 2008 meeting.

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 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 more clearly communicate the intended message. The first phase of the research is expected to be completed in the last quarter of 2008.

Clarity Task Force (Staff Liaison: Ahava Goldman; 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. The ASB is redrafting its auditing standards in a format that clearly sets forth the objectives of the standard, relevant definitions, requirements, and application material. The purpose of this redrafting is to make standards easier to read, understand, and apply. A description of this project is provided in "Clarity Project Explanatory Memorandum," and can be viewed on the Audit and Attest Standards Web site by clicking [here](#). The task force also is charged with redrafting relevant SASs to reflect the ASB's clarity drafting conventions and to converge with ISA 200 (Revised and Redrafted), *Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, and with revising the 10 generally accepted auditing standards as necessary so that these standards are consistent with the current auditing model.

Compliance Auditing Task Force (Staff Liaison: Judith M. 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 specified recommendations in the June 2007 "Report on National Single Audit Sampling Project" issued by the President's Council on Integrity and Efficiency (PCIE). The task force presented an initial draft of the proposed SAS at the ASB's May 2008 meeting and will present a revised draft at the July 2008 ASB meeting. In conjunction with this project, the task force has been reviewing the SASs to determine which sections are applicable to compliance audits, which sections are not applicable, and which sections need to be adapted to compliance audits and included in AU section 801. (Six other task forces of the AICPA's Governmental Audit Quality Center are responding to other recommendations in the PCIE report).

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 redrafted ISA 505. The task force will monitor the IAASB's deliberations and drafts in developing the proposed SAS.

Fraud Task Force (Staff Liaison: Andy Mrakovcic; Task Force Chair: Tom Stemlar). 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*. The task force expects to present a draft of the proposed SAS at the July 2008 ASB meeting.

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 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 (FASB) 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 presented a revised draft of the proposed SAS at the ASB's January 2008 meeting. The proposed SAS has been revised to reflect the ASB's recommendations and is being held in abeyance until the FASB's going concern accounting guidance is finalized. At that point the only modifications that will need to be made to the proposed SAS will be those resulting from any changes to the expected accounting standard.

Interim Reviews Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Jorge Milo). The task force is developing 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 requirements in contracts, indentures, or other agreements. At the ASB's July 2008 meeting, the task force plans to present a draft of the proposed SAS that would revise the applicability of AU section 722, *Interim Financial Information* (SAS No. 100), and to ask the ASB to vote to expose the draft for comment. The task force plans to issue a final SAS in the fourth quarter of 2008.

Internal Audit Task Force (Staff Liaison: Andy Mrakovcic; 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*. The comment period for the exposure draft of ISA 610 ended on March 31, 2007 and the IAASB approved the ISA at its June 2008 meeting.

Internal Control Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: Keith O. Newton). On June 12, 2008, the ASB issued two exposure drafts that address internal control over financial reporting. One exposure draft would replace extant AT section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*, of Statements on Standards for Attestation Engagements, and the other would revise AU section 325, *Communicating Internal Control Related Matters Identified in an Audit*. For additional information about the exposure drafts, see page 1, "ASB Issues Internal Control Exposure Drafts."

International Auditing Standards Subcommittee (Staff Liaison: Hiram Hasty; 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 September 3–4, 2008.

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 newly revised and redrafted ISA 580, *Written Representations*, which the IAASB voted to issue as a final standard at its December 2007 meeting. The task force also will be revising portions of AU section 311, *Planning and Supervision*, to achieve convergence with proposed ISA 210, (Redrafted), *Agreeing the Terms of Audit Engagements*. The comment period for the exposure draft of

ISA 210 ended on April 15, 2008. The task force will present drafts of both proposed SASs when ISA 210 is finalized.

Quality Control Standards Task Force (Staff Liaison: Ahava Goldman; Task Force Chair: David Brumeloe). 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*. In July 2007, the IAASB issued an exposure draft entitled *Proposed ISA 220 (Redrafted)*, “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.

Required Supplementary Information/Other Supplementary Information Task Force (Staff Liaison: Mike Glynn; Task Force Chair: Jeffery N. Markert). The task force is considering current reporting standards that address supplementary information and required supplementary information to determine whether revisions to these standards should be made. Sections of the SASs that are being considered for amendment include:

- The procedures in AU section 558, *Required Supplementary Information*, as well as Interpretation No 1, “Supplementary Oil and Gas Reserve Information,” of AU section 558.
- 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*.

At the July 2008 ASB meeting, the task force plans to submit drafts of proposed standards that address (1) required supplementary information and (2) supplementary information not required by a designated GAAP standard setter. At the August 2008 ASB meeting, the task force plans to submit a draft of a proposed standard that addresses the auditor’s responsibility when engaged to express an opinion on whether supplementary information is fairly stated in relation to the basic financial statements taken as a whole. All three proposed standards will be exposed simultaneously.

Risk Assessments Task Force (Staff Liaison: Hiram Hasty; Task Force Chair: Darrel Schubert). The task force is redrafting SASs 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 presented a draft of AU section 311, *Planning and Supervision* (SAS No. 108), in clarity format, at the January 2008 ASB meeting. The task force will present drafts of AU section 326, *Audit Evidence* (SAS No. 106), AU section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (SAS No. 109), and AU section 318, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (SAS No. 110), in clarity format, at the July 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 Statement on Standards for Attestation Engagements. In December 2007, the IAASB issued an exposure draft that revises ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, and a second exposure draft of a new International Standard on Assurance

Engagements 3402, *Assurance on a Service Organization's Controls*, that would provide guidance to service auditors. The ASB submitted comment letters on each of these exposure drafts. The objective of the task force is to converge the guidance on service organizations in AICPA audit and attest standards 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 revised drafts of the proposed auditing and attestation standards at the July 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 issued an exposure draft of revised and redrafted 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 August 6–7, 2008 at the New York office of the AICPA. For information about Statement on Standards for Accounting and Review Services (SSARS) No. 17, issued in February 2008, and nonauthoritative exhibits to SSARSs, see page 3. 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 provide limited assurance on an entity's financial statements, even though the accountant's independence may be impaired because he or she performed certain control activities for the entity. At the August 2008 ARSC meeting, the task force plans to present drafts of the proposed SSARSs and ask the ARSC to vote to issue them as exposure drafts during the fourth quarter of 2008. The task force plans to issue final standards during the second quarter of 2009.

Auditing Standards Committee of the American Accounting Association (AAA) (ASB/AICPA Liaisons: 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. 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 September 15–19, 2008 in Miami, Florida. 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: Jeanne Parsons, Judith Sherinsky; Task Force Chair: Bill Titera). In May 2008, the SEC issued a proposed rule requiring companies to provide financial statement 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. Although the SEC proposed rule does not require auditor involvement, concerns by issuers about liability under federal securities laws and the reliability of the data included in issuers' 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 will be 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, 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> July 28-31, 2008 San Francisco, CA
Compliance Auditing	ED
Service Organizations – SAS	ED
Service Organizations – SSAE	ED
Interim Financial Information	DD/ED
Required Supplementary Information/Other Supplementary Information	DD/ED
Overall Objectives and Preface	DD
Fraud	DD
Initial Engagements	DD
Risk Assessments – AU 314, AU 318, and AU 326	DD
Auditors' Reports	DI

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

Interpretations of Statements on Auditing Standards		
Title	Issue Date	
<p>Interpretations of AU section 508, <i>Reports on Audited Financial Statements</i>:</p> <p>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)</p> <p>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)</p>	<p>Revised May 2008</p> <p>Issued May 2008</p>	
<p>Interpretations of AU section 534, <i>Reporting on Financial Statements Prepared for Use in Other Countries</i>:</p> <p>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)</p> <p>Interpretation No. 3, "Financial Statements Audited in Accordance With International Standards on Auditing" (AU sec. 9534.09-.11)</p>	<p>Issued May 2008</p> <p>Issued May 2008</p>	
Statements on Quality Control Standards (SQCSs)		
Title (Product Number)	Issue Date	Effective Date
<p>SQCS No. 7, <i>A Firm's System of Quality Control</i> (060709)</p>	<p>October 2007</p>	<p>Effective as of January 1, 2009.</p>

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

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.
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 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. 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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