

# In Our Opinion...

The Newsletter of the AICPA Audit and Attest Standards Team  
*inside...*

October 2011

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## Clarity Project Update and SAS Nos. 122–124

*by Andy Mrakovic*

The AICPA Auditing Standards Board (ASB) and staff of the Audit and Attest Standards Team are nearing completion of a major portion of the Clarity Project—clarifying AICPA audit and quality control standards. The objective of the Clarity Project is to clarify and converge AICPA audit, attest, and quality control standards with those of the International Auditing and Assurance Standards Board (IAASB). Special drafting conventions were used by the ASB to make the standards easier to read, understand, and apply, and for that reason the resulting standards have come to be known as the “clarified standards.”

### **SAS No. 122**

A major milestone in the Clarity Project was reached with the issuance of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, which brings together and codifies 39 clarified SASs that the ASB had finalized, but had not issued, during the past three years. Because the Clarity Project spanned several years, some of the earlier clarified standards needed to be updated to reflect, among other things, amendments to certain SASs and changes in SAS titles, terminology, and formatting that were introduced towards the latter part of the project. In preparation for SAS No.

122, the clarified SASs were reviewed and fine-tuned to identify and eliminate inconsistencies and to verify cross-references.

### AU-C Section Nos.

The ASB decided that the AU section numbers of the clarified SASs should be the same as those of the International Standards on Auditing (ISAs). Accordingly, all section numbers and paragraph references in SAS No. 122 were updated to reflect this convention. To avoid confusion when referring to existing AU sections in AICPA *Professional Standards* (which remain in effect through 2013), SAS No. 122 uses the temporary identifier “AU-C.” Clarified SASs for which there is no equivalent ISA have been assigned a new AU-C section number. The “AU-C” identifier will revert to “AU” in 2014, when the clarified SASs become fully effective.

### What’s In and What’s Out?

Although the ASB has not yet clarified all of the SASs, it decided to issue and codify all of the clarified standards it had finalized through the May 2011 ASB meeting. SAS No. 122 does not include clarified SASs that were issued prior to SAS No. 122 (SAS Nos. 117-120) or SASs finalized after the May 2011 ASB meeting (SAS Nos. 123 and 124). For that reason, SAS No. 122 does not contain a complete set of standards and therefore is not a complete codification of all clarified SASs. SAS No. 122 withdraws AU section 504, *Association With Financial Statements*, supersedes all outstanding (existing) SASs through SAS No. 121, and codifies all of the clarified standards, except for the following 8 standards.

- SAS Nos. 117-120, which were issued prior to the other clarified SASs to address certain practice issues. Those standards are:
  - SAS No. 117, *Compliance Audits* (issued December 2009);
  - SAS No. 118, *Other Information in Documents Containing Audited Financial Statements* (issued February 2010);
  - SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (issued February 2010);
  - SAS No. 120, *Required Supplementary Information* (issued February 2010)
- SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries* (SAS No. 124 was approved for issuance at the July 2011 ASB meeting and supersedes SAS No. 51.)
- SAS No. 59, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, as amended. At this time, SAS No. 59 is being redrafted to apply the ASB’s clarity drafting conventions but not to converge with ISA 570, *Going Concern*, or to revise any of the requirements in that SAS. The Financial Accounting Standards Board (FASB) is working on an accounting standard [\*\*Disclosure About Risks and Uncertainties and the Liquidation Basis of Accounting\*\*](#) that addresses this topic. When the FASB completes this accounting standard, the ASB will revise the clarified standard to converge with ISA 570, taking into consideration the final FASB standard.
- SAS No. 65, *The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements*. After the IAASB has completed revising ISA 610, currently titled *Using the Work of Internal Auditors*, SAS No. 65 will be redrafted for clarity and to converge with ISA 610.

- SAS No. 87, *Restricting the Use of an Auditor's Report*. At its October 2011 meeting, the ASB expects to approve the proposed SAS *Alert as to the Intended Use of the Auditor's Written Communication* as a final standard. That SAS will supersede SAS No. 87.

SAS No. 122 also adds a preface to the Codification of Statements on Auditing Standards titled, *Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards*. The preface contains the principles underlying an audit conducted in accordance with generally accepted auditing standards. These principles provide a framework that is helpful in understanding and explaining an audit, and address the purpose of an audit, the personal responsibilities of the auditor, the auditor's actions in performing an audit, and auditor reporting.

### **SAS Nos. 123-124**

At its July 2011 meeting, the ASB approved the following additional SASs for issuance as final standards:

- SAS No. 123, *Omnibus Statement on Auditing Standards—2011*, which amends SAS Nos. 117–118 and the following sections in SAS No. 122:
  - 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
  - 230, *Audit Documentation*
  - 260, *The Auditor's Communication With Those Charged With Governance*
  - 705, *Modifications to the Opinion in the Independent Auditor's Report*
  - 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*
- SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*, which clarifies and supersedes SAS No. 51.

### **Effective Date**

SAS Nos. 122-124 are effective for audits of financial statements for periods ending on or after December 15, 2012.

### **Availability**

#### **Online**

In the online professional literature, SAS Nos. 122-124 have been codified and placed in a new section of AICPA *Professional Standards* titled "U.S. Auditing Standards—AICPA (Clarified) [AU-C]," directly following the current AU material, which is in a section titled "U.S. Auditing Standards [AU]."

#### **Print**

**SAS Nos. 122–124** can be purchased in print form in a single book (product no. 0607122) that contains the individual pronouncements.

### **Guide to Clarified and Converged Standards**

To help practitioners familiarize themselves with the clarified standards, a paper entitled **The AICPA's Guide to Clarified and Converged Standards of Auditing and Quality Control** has been posted to the AICPA website. The paper contains examples of new terms introduced by the clarified SASs, identifies changes to the SASs that make explicit what was previously implicit in the

standards, additional requirements, and the SASs that have been the most substantially revised (although these generally do not contain significant changes in audit requirements). The paper also contains a section on how to prepare for the transition to the clarified standards.

### **Changes in Auditor Requirements**

A **table** that lists the title of each clarified SAS, its new AU-C section number, the extant AU section(s) that it supersedes, and any changes from the extant AU section(s) is currently available on the AICPA website. SAS No. 122 also contains an exhibit that cross references all of the AU-C sections in SAS No. 122 to the related extant AU sections.

### **Convergence of Attestation Standards**

The ASB has begun to converge AICPA Statements on Standards for Attestation Engagements (SSAEs or attestation standards) with IAASB International Standards on Assurance Engagements (ISAEs or assurance standards.) In April 2011, the ASB issued SSAE No. 16, *Reporting on Controls at a Service Organization*, the result of convergence with the IAASB's equivalent assurance standard ISAE 3402, *Assurance Reports on Controls at a Service Organization*.

### **Convergence of Quality Control Standards**

The ASB issued Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)*, in November 2010. SQCS No. 8 clarifies and supersedes SQCS No. 7, *A Firm's System of Quality Control*, and is effective as of January 1, 2012.

## **Partnering With ASEC**

*by Judith Sherinsky*

The AICPA Assurance Services Executive Committee (ASEC) is responsible for identifying and prioritizing emerging trends and market needs for assurance, and for developing related assurance guidance and tools. ASEC and the Auditing Standards Board (ASB) have partnered on several projects to develop implementation guidance in the form of AICPA guides and statements of position that are based on Statements on Standards for Attestation Engagements (SSAEs or attestation standards). The attestation standards enable a CPA to report on subject matter other than financial statements.

### **Corporate Social Responsibility**

Most recently ASEC and ASB staff have been discussing engagements in which a CPA reports on an entity's corporate social responsibility (CSR). To understand the concept of CSR, consider a manufacturer that incurs additional costs to purchase goods exclusively from countries that treat its labor fairly, or a company that trains and employs individuals with developmental disabilities. In addition to the social good derived from such practices, companies may receive other benefits, such as increased sales or investment in the company's stock by consumers and investors who support such practices.

A company that engages in socially responsible activities may decide to include a separate statement along with its financial statements that describes such purchasing or hiring practices. In the future, criteria may be developed for the content of such disclosure and a CPA may be asked to report on whether the disclosure meets those criteria. This project is still in its very early stages.

## Electronically Prescribing Controlled Substances

Another ongoing project that ASEC and ASB staff have been working on is the development of an engagement to assist CPAs in reporting on whether an electronic prescription or pharmacy management application used for prescribing controlled substances meets the criteria established by the Drug Enforcement Administration in the Code of Federal Regulations. This is an example of how technological change creates a demand for attestation services.

## SOC 2 Guide

ASEC and the ASB have partnered on several other projects. In May 2011 the ASB issued the guide *Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy (SOC2)*, which enables a CPA to report on a service organization's controls relevant to the five attributes of a system identified in the title of the guide. In the past, many practitioners used SAS No. 70, *Service Organizations*, to report on controls at a service organization relevant to subject matter other than user entities' internal control over financial reporting. SAS No. 70 was not intended for such reporting and neither is SSAE No. 16, which supersedes the guidance for service auditors in SAS No. 70. ASEC identified an increasing market demand for assurance on controls relevant to subject matter other than user entities' internal control over financial reporting, such as controls over the privacy of information processed by a service organization, and an ASEC task force developed the guide, which uses AT Section 101, *Attest Engagements*, of the attestation standards as a framework.

## XBRL

In January 2009 the SEC issued a release adopting final rules that require issuers to provide their financial statements to the SEC and on their corporate websites in interactive data format using eXtensible business reporting language (XBRL). The advantage of such electronically tagged financial statement data is that users can efficiently access specific data, for example, to compare financial statement elements among multiple companies. Although SEC rules do not require auditor involvement, concerns by issuers about the reliability of the data included in their XBRL financial statements prompted ASEC to form a task force to address those concerns. Working with the ASEC task force and staff, the ASB issued Statement of Position 09-1, *Performing Agreed Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL Tagged Data*, which provides guidance to CPAs on procedures they may perform to assist preparers in evaluating their XBRL tagged data. The engagement is based on AT Section 201, *Agreed-Upon Procedures Engagements*, of the attestation standards.

ASEC and the ASB believe that changes in technology, regulation, and the environment will create many new opportunities for CPAs to report on a variety of subject matter under the attestation standards, and the partnering of ASEC and the ASB brings together the right combination of talents to create and deliver the implementation guidance CPAs need to perform these services.

## ASB Strategic Planning

by Ahava Goldman

With the ASB's clarity project near completion and the IAASB planning its projects and initiatives for the next three to four years, the ASB is considering which projects and initiatives it should undertake during that same three to four year timeframe. To obtain views from its constituents about what the ASB's objectives and activities should be during that period, and to assist the ASB in aligning its objectives and activities to the needs of the profession and the public, the ASB developed a survey that was posted on the AICPA Audit and Attest website and sent to a variety of

constituents, including CPAs, regulators, state societies, members of academia, and standard setters. The ASB received over 200 responses to the survey, which were due August 31, 2011.

The ASB Strategic Planning Task Force met on September 15, 2011 to begin discussing the results of the survey. The following are some of the topics mentioned by a number of survey respondents regarding activities and topics the ASB should be considering:

- Providing implementation guidance on auditing the fair value of assets and liabilities
- Providing implementation guidance on auditing disclosures
- Determining an appropriate balance between principles-based and rules-based standards
- Auditing electronic transactions and obtaining electronic evidence
- The extent to which ASB standards should be aligned with PCAOB standards
- Applying auditing standards to audits of the financial statements of small and medium entities (SMEs) by small and medium practitioners (SMPs).
- The form of the guidance (standards level or interpretive) that should be developed to assist practitioners in performing attestation engagements that address subject matter, such as XBRL presentations and corporate sustainability

The members of the task force formed three working groups to discuss various issues and were asked to

- prioritize the activities the survey respondents believe the ASB should be working on (“have to/nice to”)
- identify opportunities for new attestation services to be provided by CPAs
- identify opportunities for process improvements
- consider whether and when commenters should be invited to present their ideas to the ASB or be contacted for further follow up

The working groups are developing recommendations for topics to be discussed at the next task force meeting on November 29-30, 2011, with an ultimate goal of developing the ASB’s priorities for the next 3 years.

## IAASB Consultation Paper

*by Linda Delahanty*

In May 2011 in conjunction with its [auditor's report project](#), the International Auditing and Assurance Standards Board (IAASB) released a consultation paper [Enhancing the Value of Auditor Reporting: Exploring Options for Change](#) (paper). The IAASB is seeking global input from a broad range of key report users about the usefulness of auditor reporting and possible options for enhancing its quality, relevance, and value. The paper describes issues related to

current financial reporting, including a perceived information gap identified by some stakeholders. The paper also sets out possible options for change and seeks input regarding whether such options might be effective in narrowing the information gap or enhancing the communicative value of the auditor's report.

The ASB requested feedback on the paper's questions from users of audited financial statements of nonissuers and other stakeholders in the U.S. This feedback was used to help the ASB in developing its [comment letter](#) to the IAASB, and in deciding how to move forward with possible options for changes to the auditor's report that will enable the ASB to continue to meet its objective of harmonization with the International Standards on Auditing.

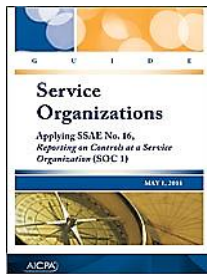
## New Service Organizations Guides

by Judith Sherinsky

The Auditing Standards Board has issued two new guides that address reporting on controls at a service organization. To help differentiate between the guides, the AICPA has christened them SOC 1<sup>SM</sup> and SOC 2<sup>SM</sup>, with the acronym "SOC" representing "service organization controls."

### SOC 1<sup>SM</sup> Guide

The AICPA Guide *Service Organizations—Applying Statement on Standards for Attestation*



*Engagements No. 16, Reporting on Controls at a Service Organization (SOC 1)* was issued in May 2011 and replaces the AICPA Audit Guide *Service Organizations, Applying SAS No. 70*. The new guide (product no. 0127910) is designed to help practitioners transition from performing a service auditor's engagement under the auditing standards (Statement on Auditing Standards (SAS) No. 70, *Service Organizations* [AU sec. 324]), to performing it under the attestation standards (Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* [AT sec. 801]).

SSAE No. 16, issued in April 2011, establishes the requirements and guidance for reporting on controls at a service organization relevant to user entities' internal control over financial reporting (ICFR).

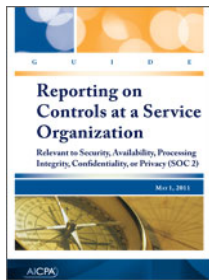
Prior to the issuance of SSAE No. 16, the requirements and guidance for both service auditors reporting on controls at a service organization and user auditors auditing the financial statements of entities that use a service organization (user entities) were contained in AU section 324. The requirements and guidance for service auditors has been moved to the attestation standards in SSAE No. 16. In drafting SSAE No. 16, the ASB converged its attestation standard with International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*, and made very few changes. The IAASB's assurance standards are the equivalent of the ASB's attestation standards.

The controls addressed in SSAE No. 16 are those a service organization implements to prevent, or detect and correct, errors or omissions in the information it provides to user entities. A service organization's controls are relevant to a user entity's ICFR when they are part of the user entity's information and communication system maintained by the service organization.

The guide also assists service auditors in understanding the kinds of information auditors of the financial statements of user entities need from a service auditor's report. Currently, AU section 324

contains the requirements and guidance for user auditors on obtaining sufficient appropriate audit evidence in an audit of the financial statements of a user entity. When the new clarified SAS *Audit Considerations Relating to an Entity Using a Service Organization* becomes effective, it will replace the guidance for user auditors currently in AU Section 324. The clarified SAS is based on the IAASB's International Standard on Auditing 402, which bears the same title as the clarified SAS. The effective date of the clarified SAS is for audits of financial statements for periods ending on or after December 15, 2012.

One of the most significant changes introduced by SSAE No. 16 is that the service auditor must obtain a written assertion from management of the service organization about all of the matters on which the service auditor expresses an opinion (whether management's description of the service organization's system is fairly presented, whether the controls included in the description were suitably designed and, in a type 2 engagement, whether those controls were operating effectively to achieve the related control objectives throughout the specified period.) To help CPAs and management accomplish this aspect of the engagement, the guide includes an illustrative management assertion for a type 1 and a type 2 report.



The guide contains chapters on planning, performing, and reporting on a service auditor's engagement, as well as over 30 illustrative explanatory paragraphs for situations that may require modification of the service auditor's report. Appendix B of the guide includes four illustrative type 2 reports that contain (1) the service auditor's report, (2) management's written assertion, (3) the service organization's description of its system, and (4) the service auditor's description of tests of controls and results. That appendix includes reports for a service

organization that uses the carve out method to present a subservice organization, a service organization that uses the inclusive method to present a subservice organization, and a service organization and subservice organization that require complementary user entity controls.

The guide also contains illustrative management representation letters for service organizations and subservice organizations, and illustrative control objectives for various types of service organizations. Information about other changes resulting from the issuance of SSAE No. 16 is available in the August 2010 issue of the *Journal of Accountancy*, in the article ["Replacing SAS No. 70"](#)

### SOC 2<sup>SM</sup> Guide

The other guide issued by the ASB, *Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy* (SOC 2) is designed to assist practitioners reporting on controls at a service organization relevant to subject matter other than user entities' ICFR, specifically, a service organization's controls relevant to the security, availability, or processing integrity of a system or the confidentiality, or privacy of the information processed by the system. In a SOC 2<sup>SM</sup> engagement, the service auditor uses the criteria in TSP section 100 [Trust Services Principles, Criteria, and Illustrations for Security, Availability, Processing Integrity, Confidentiality, and Privacy](#) (AICPA, *Technical Practice Aids*), for evaluating and reporting on controls related to security, availability, processing integrity, confidentiality, or privacy. In TSP section 100, these five attributes of a system are known as *principles*. A service auditor may be engaged to report on a description of a service organization's system and the suitability of the design and operating effectiveness of controls relevant to one or more of the trust services principles.

The controls that the practitioner reports on in these engagements are intended to prevent, or detect and correct, errors or other negative events that affect the service or information provided to

user entities, as they relate to the principle being reported on. For example, a health insurer that outsources the processing of medical claims to a claims processor will likely be subject to laws requiring the health insurer to maintain the privacy of the information included in the medical claims. The health insurer is responsible for maintaining the privacy of the information in the medical claims when the claims are in its possession and also when they are at the claims processor. A health insurer that is concerned about complying with laws or regulations related to privacy may wish to obtain assurance about the service organization's controls relevant to privacy that affect the users' information.

The SOC 1<sup>SM</sup> and SOC 2<sup>SM</sup> guides are authoritative guides that have been cleared by the AICPA's ASB.

## Incoming Members of the ASB

The Audit and Attest Standards team welcomes five new members to the ASB who replace outgoing members Ernie Baugh, Tom Ratcliffe, Tom Stemlar, Mark Taylor, and Phil Wedemeyer. We are especially grateful to these members for the heavy workload they have borne as the ASB worked through its Clarity Project.

Following are brief bios of the new members of the ASB.

**Barbara Lewis** is an audit director with Atkinson & Co., Ltd., in Albuquerque NM. Barbara serves as head of the firm's audit department and as quality control director. Prior to joining Atkinson & Co, in 1991, she spent six years with Ernst & Young, LLP. Barbara provides audit and accounting services to a variety of entities including those in the construction, real estate, art, and supply industries. She also provides audit and accounting services to not-for-profit entities, governmental entities; employee benefit plans, and entities subject to the single audit act.



Barbara is a past president of the New Mexico Society of CPAs, a current member of its peer review and nominating committees, and past member of its awards, strategic planning, and executive committees. She also has served on AICPA Council as the New Mexico representative. She is a past member of the AICPA Technical Issues Committee, Professional and Personal Liability Insurance Committee, Not-for-Profit Expert Panel, and Peer Review Board.

Barbara is a board member of various not-for-profit organizations, finance committees, and audit committees within the Albuquerque metropolitan area. She is the recipient of numerous awards, including the AICPA Woman to Watch Award (2005), CFMA Executive of the Year (2009), and Leadership Albuquerque Alumni Association Community Leader Award (2010).

Barbara is married to Burl and has two teenage boys, Shane and Travis. She and her family enjoy a variety of outdoor activities and are all sports enthusiasts. Barbara and her husband especially enjoy cheering Shane and Travis on as they pursue their respective high school and middle school sports activities.



**Carolyn H. McNerney** is a partner at SS&G in Akron, OH where she is co-director of assurance services. Carol serves as engagement partner on audit, review and compilation engagements for manufacturing, distribution and services companies; service auditor's engagements under SSAE 16 (formerly SAS 70); audits of

employee benefit plans; and agreed-upon procedures engagements. She has more than 25 years of public accounting experience, with a focus on merger and acquisition consulting, including the performance of due diligence. Carol worked for PricewaterhouseCoopers prior to joining SS&G.

She is experienced in assisting clients in the application of new or technical accounting requirements, as well as accounting for new and complex transactions. In addition to her client service responsibilities, Carol oversees quality control for the firm and serves as the independent technical reviewer on a number of the firm's more complex engagements. She also is a member of SS&G's personnel committee and executive committee, which leads the firm's strategy and growth.

Carol was chair of the AICPA Accounting and Review Services Committee (ARSC) from 2008 to 2010 and a member of ARSC during the previous three years. She co-authored the article *Changes on Tap for Compilation and Review Standards*, which appears in the May 2010 issue of the *Journal of Accountancy*. Carol is also a correspondent member of the Review and Compilation Task Force of the International Auditing and Assurance Standards Board, which is revising those standards. She is a frequent speaker on activities of the ARSC at AICPA national conferences as well as other professional organizations. Carol's other professional affiliations include the Ohio Society of CPAs, Association for Corporate Growth, and the International Women's Insolvency & Restructuring Confederation, where she serves as treasurer. Carol also serves on the Akron/Canton Community Leadership Board of the American Diabetes Association. Carol is a magna cum laude graduate of Cleveland State University with a bachelor's degree in accounting. She enjoys hiking with her dogs and is a certified open water scuba diver.



**Don Pallais** has his own national practice in Richmond, VA specializing in technical consulting and providing expert witness testimony. Since starting his practice in 1986, he has provided services to CPA firms, ranging from small to Big-4, that involved creating internal policies, consulting on compliance with professional standards and, developing new services. He also provides litigation consulting and expert witness services related to accountants' responsibilities and financial statement matters. As a former director in the AICPA Auditing Standards Division and member of the Auditing Standards Board (1989-1991), Accounting and Review

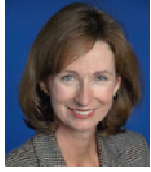
Services Committee, Assurance Services Executive Committee, and Professional Ethics Executive Committee, Don has a long been involved in setting professional standards. He has also served on AICPA task forces that developed standards, provided recommendations regarding the education of CPAs, and assisted in developing the CPA examination. Don also served on the board of directors and technical and disciplinary committees of the Virginia Society of CPAs. He has authored or coauthored 10 books on accounting and auditing topics, including PPC's Guide to GAAS, and is a contributing author to 10 others. Don is a CPA and a certified fraud examiner (CFE). He received his MBA from The College of William and Mary and his BBA (Accountancy) from Baruch College, City University of New York.



**Mike Santay** is the partner in charge of auditing standards in the national professional standards group of Grant Thornton LLP. In this role, Mike is responsible for developing and issuing firm audit policies and guidance, developing firm comment letters on professional and regulatory proposals, and participating in task forces as a representative of his firm.

Mike began his career at Arthur Andersen as a staff auditor and rejoined the firm in 1997 as a principal. Before returning to Andersen, he held financial management positions at various public companies including Quaker Oats, Fruit of the Loom, RR Donnelley and Sundance Homes.

Mike is currently a member of the AICPA and a board member of Access Living (Chicago). Mike received a Bachelor of Science in Accounting from DePaul University and a Masters in Management–Finance and Marketing from the Kellogg School of Management, Northwestern University.



**Kay W. Tatum** is an associate professor of accounting at the University of Miami in Coral Gables, FL. Her primary teaching and research interests are auditing and corporate governance. She joined the University of Miami's Department of Accounting in 1986 after earning her Ph.D. at Texas Tech University, and served as chair of the department from 2004–2008. Prior to entering academia, she worked in public accounting as an auditor.

Kay has participated in various activities involving professional auditing standards. She was named to the PCAOB's initial Standing Advisory Group, serving a two-year appointment from 2004 - 2005. Prior to that appointment, she was a member of the AICPA's International Auditing Standards Subcommittee from 1998 – 2003 and a member of the AICPA's task force that developed SAS No. 84, *Communications between Predecessor and Successor Auditors*. She was a member of the Joint Working Group, a committee of practitioners, standard setters, and academics from the U.S., Canada, and the U.K. that studied the audit methodologies of the large accounting firms. She is co-author of *Developments in the Audit Methodologies of Large Accounting Firms*, a monograph written by the academic members of the Joint Working Group.

Kay is an active member of the American Accounting Association's Auditing Section, and served as secretary from 2004 - 2006. Prior to holding that office, she was a member of the Section's Auditing Standards Committee from 1999 - 2003, serving as chair for two years. In addition, she is a member of the editorial board of the Section's journal *Current Issues in Auditing*. Kay's articles about auditing topics have appeared in the *Journal of Accountancy* and *The CPA Journal*. She also is a co-author of the book *Audit Committees: A Guide for Directors, Management, and Consultants*, Sixth Edition.

## Three New Members of the ARSC

by Mike Glynn

At the completion of the 2009-2010 committee year, Carolyn H. McNerney completed a six year term on the Accounting and Review Services Committee (ARSC), and for the last three years served as chair of the committee. During her term on the ARSC, the committee issued Statement on Standards for Accounting and Review Services (SSARS) Nos. 15 through 20. SSARS Nos. 18 through 20 were issued under Carol's chairmanship. SSARS No. 19 represents the most significant changes to the compilation and review literature since the issuance of SSARS No. 1 in 1978. The AICPA and ARSC thank Carol for her tremendous leadership, dedication, and friendship and wish her well as she continues her voluntary service to the profession on the Auditing Standards Board.

Gerald W. Burns and James A. Smith also completed their respective terms and rotated off the ARSC as of the completion of the 2010-2011 committee year. The AICPA is extremely grateful to both Jerry and Jim for the time they devoted and the expertise they brought to the ARSC.

The following is some biographical information about the new chair and 3 new members of ARSC.



**Michael L. Brand** joined ARSC during the 2010-2011 committee year, and will serve as chair of the ARSC commencing with the 2011-2012 committee year. Mike is a partner in the firm of Johnson, Feigley, Newton & Brand in Athens, AL. He received his B.S. in accounting from the University of North Alabama and has been in the practice of public accounting for over 20 years. During those years he has been involved in all aspects of public accounting, with an emphasis in providing accounting, audit, and review services to clients in for profit, not-for-profit, and governmental sectors. He also teaches continuing education classes across the country and has spoken at several conferences nationwide. Additionally, he conducts peer reviews. He is the current chair of the Alabama Society of Certified Public Accountants Peer Review Committee and was formerly on the Peer Review Board, Joint Trial Board, and Quality Control Standards Task Force of the AICPA. Mike currently lives in Athens, AL with his wife and two sons. He is actively involved in the community and enjoys his time outside of the office with his family enjoying outdoor sporting activities and cooking.



**Jay H. Goldberg** is a partner and director of the quality review department at Friedman LLP, headquartered in New York City. Prior to joining Friedman LLP, Jay was a partner in a Big-4 firm and at two local CPA firms. He is responsible for reviewing financial statements of clients to ensure compliance with professional standards and for researching accounting and auditing issues. Jay provides services to all of the firm's diverse clientele, including those in the real estate, apparel, professional services, distribution, telecommunications, and technology industries. He is a member of the New Jersey Society of CPAs and the New York State Society of CPAs where he is a member and the immediate past chair of its Accounting and Review Services Committee. Jay earned a bachelor's degree in accounting from Seton Hall University.



**Angie Moss** is an audit partner with TravisWolff, LLP and has provided assurance and consulting services for both public and private companies for over 19 years, assisting them in identifying, assessing, and resolving business challenges. Her public accounting experience includes working with clients in industries that include financial services, real estate, manufacturing, and distribution. Angie has served on the AICPA Technical Issues Committee and currently serves on the Texas State Society of Certified Public Accountants Professional Ethics Committee. She serves on TravisWolff's board of directors and is partner in charge of the audit department. Travis Wolff is based in Dallas, TX and also has an office in San Antonio.



**Thad Scott** has 36 years of experience in public accounting including work at a national accounting firm. He currently is a sole practitioner whose practice includes audits, reviews, and tax services. He performs peer reviews and is a certified fraud examiner who has worked as an expert witness for U.S. attorneys in fraud cases. He has 20 years of experience teaching accounting, auditing, and fraud CPE courses. He is a former member of the California State Peer Review Committee and the California Education Foundation Board of Trustees. He earned the CalCPA Education Foundation's Meritorious Service Award and has twice earned the AICPA's award for California Outstanding Instructor. Thad earned a bachelor's degree in business management from California State University, San Luis Obispo and a master's degree in accounting from California State University Northridge.

# Highlights of Technical Activities

## Task Forces of the ASB

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

**Attestation Standards** (Staff Liaison: Judith Sherinsky; Task Force Chair: Don Pallais). This task force will be redrafting AT section 101, *Attest Engagements*, of Statement on Standards for Attestation Engagements to apply the ASB's clarity drafting conventions and to converge with International Standard on Assurance Engagement 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. The task force will hold its first meeting in November 2011.

In April 2010 the International Auditing and Assurance Standards Board (IAASB) issued an exposure draft of a proposed [International Standard on Assurance Engagements \(ISAE\) 3000 \(Revised\), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information](#), which, among other things, is intended to make ISAE 3000 more principles based. A task force staffed by Ahava Goldman and chaired by Brian Bluhm assisted the ASB in drafting its comment letter on the exposure draft.

**Audit Issues** (Staff Liaison: Ahava Goldman; Task Force Chair: Darrel Schubert). 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** (Staff Liaison: Linda Delahanty; Task Force Chair: Dan Montgomery). The task force has redrafted paragraphs .19-.21, "Compliance with Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements," of AU section 623, *Special Reports*, to apply the ASB's clarity drafting conventions. Paragraphs .19-.21 address by-product reports on compliance with aspects of contractual agreements or regulatory requirements. Because the guidance in these paragraphs does not relate to forming an opinion and reporting on a complete set of general-purpose financial statements, the ASB concluded that it should be developed as a stand-alone SAS to address this unique type of reporting. The draft eliminates references to *negative assurance* and *by-product report* when describing these reports. The task force presented a revised draft of the SAS *Compliance with Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements (Redrafted)* at the May 2011 ASB meeting at which time the ASB voted to issue the draft as a final standard. The SAS is included in SAS No. 122.

**Going Concern** (Technical Advisor: Julie Anne Dille; Task Force Chair: Brian Richson). ISA 570, *Going Concern*, 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. The Financial Accounting Standards Board (FASB) is working

on an accounting standard ***Disclosure About Risks and Uncertainties and the Liquidation Basis of Accounting (formerly, Going Concern)*** that addresses this topic. The ASB task force has redrafted AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, to apply the ASB's clarity drafting conventions but not to converge with ISA 570 or revise any requirements in AU Section 341. When the FASB completes its accounting standard on this topic, the ASB will revise the clarified standard to converge with ISA 570, taking into consideration the final FASB standard. The ASB will discuss the proposed SAS at its October 2011 meeting.

***Interim Reviews*** (Staff Liaison: Ahava Goldman; Task Force Chair: Rob Chevalier). The task force was charged with redrafting SAS No. 116, *Interim Financial Information*, (AU sec. 722), in accordance with the ASB's clarity drafting conventions. In drafting the proposed SAS, the provisions of International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, were considered. A final clarified SAS *Interim Financial Information* was approved by the ASB in May 2011 and is included in SAS No. 122.

***Internal Audit*** (Staff Liaison: Hiram Hasty; Task Force Chair: Megan Zietsman). This task force is redrafting AU section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, to apply the ASB's clarity drafting conventions and to converge with ISA 610, *Using the Work of Internal Auditors*. The IAASB issued an exposure draft of ISA 610 in July 2010, discussed comments on that document at its March and June 2011 meetings, and considered remaining issues at its September 2011 meeting. The task force is monitoring the IAASB's project to revise ISA 610.

***International Auditing Standards*** (Staff Liaison: Hiram Hasty; Task Force Chair: Dan Montgomery). 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 audit and attest standards and practices, and assisting the ASB and other AICPA committees in developing and implementing AICPA international strategies. The next task force meeting will be held on November 29, 2011.

***Letters for Underwriters*** (Staff Liaison: Ahava Goldman; Task Force Chair: Phil Wedemeyer). This task force has redrafted AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, in accordance with the ASB's clarity drafting guidance. No ISA corresponds with AU section 634. The task force considered whether this section is relevant to nonissuer entities and concluded that it is. Comfort letters could be issued in accordance with this section for 144A offerings, acquisitions of a nonpublic company by a public company, initial public offerings, and other situations in which audited financial statements of a nonpublic company are filed in connection with a securities transaction. A final clarified SAS was approved by the ASB in May 2011 and is included in SAS No. 122.

***Pro Forma Financial Information*** (Staff Liaison: Andy Mrakovcic; Task Force Chair: Ernie Baugh). In April 2010, the IAASB issued an exposure draft (ED) of proposed ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*. The ASB task force submitted a comment letter on the ED and has been monitoring changes to the draft. The IAASB discussed comments on the ED and a revised draft of the ISAE at its March 2011 meeting, and approved the proposed ISAE as a final standard at its September 2011 meeting. The

future goal of the task force is to redraft AT section 401 of the SSAEs, *Reporting on Pro Forma Financial Information*, to apply the ASB's clarity drafting conventions.

***Reporting on Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country*** (Technical Advisor: Michael Neller; Task Force Chair: Walt Conn). This task force was charged with redrafting AU section 534, *Financial Statements Prepared for Use in Other Countries*, in accordance with the ASB's clarity drafting conventions. In September 2009, the ASB issued an exposure draft (ED) of the proposed SAS, *Reporting on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*. The proposed SAS addresses engagements in which the auditor is reporting on a U.S. entity's financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country. For financial statements that will be used in the U. S., the ED requires the auditor to report using the U.S. form of report, modified as appropriate (qualified or adverse), because of departures from U.S. generally accepted accounting principles. At its October 2010 meeting, the ASB revised the exposure draft for certain matters noted in comment letters and also concluded that the proposed SAS should be revised to require the auditor to include an emphasis-of-matter paragraph in the report to highlight the foreign financial reporting framework, but permit the auditor to express an unqualified opinion. As a result of this change, the ASB also eliminated the concept of limited use from the proposed SAS. The ASB concluded that the change from requiring a modified report (qualified or adverse opinion) to permitting an unmodified opinion with a requirement for an emphasis-of-matter paragraph was significant enough to require re-exposure of the proposed SAS, and accordingly the proposed SAS was re-exposed. A final clarified standard was approved by the ASB in August 2011 and was issued as SAS No. 124.

***Restricted Use Reports*** (Staff Liaison: Mike Glynn; Task Force Chair: Phil Wedemeyer) In December 2010, this task force issued an exposure draft of a proposed SAS ***Alert as to the Intended Use of the Auditor's Written Communication*** that would supersede SAS No. 87, *Restricting the Use of an Auditor's Report* (AU sec. 532). The proposed SAS represents the redrafting of SAS No. 87 to apply the ASB's clarity drafting conventions.

The proposed SAS establishes an umbrella requirement to include an alert about the intended use of the auditor's written communication when the subject matter of that communication is based on

- a. measurement or disclosure criteria that are determined by the auditor to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria,
- b. measurement or disclosure criteria that are available only to the specified parties, or
- c. matters identified by the auditor during the course of the engagement that are not the primary objective of the engagement (commonly referred to as a by-product report).

The alert language, which indicates that the communication is solely for the information and use of the specified parties, is consistent with extant AU section 532, except when the engagement is also performed in accordance with *Government Auditing Standards*, and the written communication pursuant to that engagement is required by law or regulation to be made publicly available. In this circumstance, the alert language describes the purpose of the communication and states that the communication is not intended to be and should not be used for any other purpose. Specified parties are not identified in this type of alert.

The proposed SAS also modifies the guidance pertaining to single combined reports covering both (a) communications that are required to include an alert as to intended use and (b) communications

that are for general use, which do not ordinarily include such an alert. Extant AU Section 532 states that if an auditor issues a single combined report, the use of the single combined report should be “restricted” to the specified parties. The proposed SAS, however, indicates that the alert as to intended use pertains only to the communications required to include such an alert. Accordingly, the intended use of the communications that are for general use is not affected by this alert.

Extant AU Section 532 requires the auditor to consider informing his or her client that restricted use reports are not intended for distribution to nonspecified parties. The proposed SAS does not include a comparable requirement and makes clear that an auditor is not responsible for controlling the distribution of the written communication. The alert is designed to avoid misunderstandings related to the use of the written communication, particularly when taken out of the context in which it is intended to be used. An auditor may consider informing the entity that the written communication is not intended for distribution to parties other than those specified in the written communication. The ASB discussed comments received on the ED at its July 2011 meeting, and will discuss a revised draft of the SAS at its October 2011 meeting; the task force expects that the ASB will vote to issue the revised draft as a final standard.

**Service Organizations Guide** (Staff Liaison: Judith Sherinsky; Task Force Chair: Joseph Griffin). This task force has revised the AICPA Audit Guide, *Service Organizations, Applying SAS No. 70* to reflect the issuance of SSAE No. 16 *Reporting on Controls at a Service Organization*, which supersedes the guidance for service auditors in AU section 324, *Service Organizations*. The new guide, *Service Organizations, Applying SSAE No. 16, Reporting on Controls at a Service Organization* (product no. 0127910) was issued in May 2011. For additional information about the guide see the article “New Service Organizations Guides” on page 7.

**Strategic Planning** (Staff Liaison: Ahava Goldman, Judith Sherinsky; Task Force Chair: Bruce Webb) The Strategic Planning Task Force is assisting the ASB in developing a strategic plan to help the ASB determine which projects and initiatives it should undertake during the next three to four years. The task force developed a survey which was posted to the AICPA website, and sent to various ASB constituents. The task force did a preliminary review of the results of the survey at a meeting in September 2011 and will report to the ASB in January 2012.

**Sustainability** (Staff Liaison: Judith Sherinsky; Task Force Chair: Beth Schneider) The task force is focusing on standards that assist CPAs in reporting on greenhouse gas emissions under the SSAEs. The task force assisted the ASB in developing a [comment letter](#) on the January 2011 exposure draft of proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*. The AICPA professional literature currently includes Statement of Position 03-2, *Attest Engagements on Greenhouse Gas Emissions Information*, which addresses the same subject matter as the proposed ISAE. The task force will be monitoring the IAASB’s project to determine whether revisions should be made to the SOP to reflect content in the proposed ISAE.

## 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 ARSC is currently clarifying the SSARs literature in accordance with the ASB's clarity drafting conventions. During the clarity process, the ARSC will re-examine the SSARs literature and refine the SSARs as needed. The ARSC has deferred converging its standards with the IAASB's international compilation and review literature until the IAASB completes its ongoing revision of that literature. The next meeting of the ARSC will be on November 8-10, 2011 in Seattle, WA.

[Highlights](#) of past and current ARSC meetings are available on the Audit and Attest Standards website.

***Auditing Standards Committee of the American Accounting Association (AAA)*** (ASB/AICPA Liaisons: Kay Tatum 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 Keith Jones, Associate Professor of Accounting, George Mason University.

***International Auditing and Assurance Standards Board (IAASB)*** (U.S. Member: William Kinney; U.S. Technical Advisor: Chuck Landes) The IAASB establishes

- ***[International Standards on Auditing \(ISAs\)](#)***, which are applicable to audits of historical financial information;
- ***[International Standards on Review Engagements \(ISREs\)](#)***, which are applicable to reviews of historical financial information;
- ***[International Standards on Assurance Engagements \(ISAEs\)](#)***, which are applicable to assurance engagements dealing with subject matter other than historical financial information;
- ***[International Standards on Related Services \(ISRSs\)](#)***, which are applicable to compilation engagements, engagements to apply agreed-upon procedures to information, and other related services engagements, as specified by the IAASB;
- ***[International Standards on Quality Control \(ISQCs\)](#)***, which are applicable to all services under the ISAs, ISAEs and ISRSs.

The IAASB also facilitates the convergence of national and international auditing and assurance standards. The ASB has almost completed converging its auditing standards with the ISAs, is in the process of converging its attestation standards with the ISAEs, and has completed converging its quality control standards with the ISQCs. IAASB outstanding exposure drafts; final auditing, assurance, related services, and quality control standards; and information about attending IAASB meetings, which are open to the public, are available at <http://www.ifac.org/iaasb>. The next meeting of the IAASB will be on December 5 - 9, 2011 in Los Angeles, CA.

***Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy*** (Staff Liaison: Erin Mackler, Judith Sherinsky; Task Force Chair: Chris Halterman) A task force of the AICPA Assurance Services Executive Committee has completed a new guide designed to assist practitioners in reporting on controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy. For additional information about this guide, see the articles on page 7, "New Service Organization

Guides.”

## 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, FS—Vote to ballot a standard for finalization, FI—Vote to ballot a document for final issuance, SU—Status update, WD—Withdrawal.

October 25-27, 2011 New York, NY	
Project	Expected ASB Action
Going Concern	ED
Restricted Use	FS
Report of Strategic Planning Task Force	

## Recently Issued and Approved Documents

### Statements on Auditing Standards (SASs)

Title (Product Number)	Issue Date
SAS No. 124, <i>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i> (0607122) <sup>1</sup>  Effective for audits of financial statements for periods ending on or after December 15, 2012.	October 2011
SAS No 123, <i>Omnibus Statement on Auditing Standards—2011</i> (0607122) <sup>1</sup>  Effective for audits of financial statements for periods ending on or after December 15, 2012.	October 2011
SAS No. 122, <i>Statements on Auditing Standards: Clarification and Recodification</i> (0607122) <sup>1</sup>  Effective for audits of financial statements for periods ending on or after December 15, 2012.	October 2011

<sup>1</sup> Statements on Auditing Standards Nos. 122-124 are included in a single book (product no. 0607122).

Title (Product Number)	Issue Date
<p>SAS No. 121, <i>Revised Applicability of Statement on Auditing Standards No. 100</i>, Interim Financial Information (0607121)</p> <p>Effective for interim reviews of interim financial information for periods beginning after December 15, 2011. Early application is permitted.</p>	February 2011

### Interpretations of Statements on Auditing Standards

Title	Issue Date
<p>Interpretation No. 1 of AU Section 551, <i>Supplementary Information in Relation to the Financial Statements as a Whole: Auditing Interpretations</i></p> <p>“Dating the Auditor’s Report on Supplementary Information”</p>	July 2011

### Statements on Quality Control Standards (SQCSs)

Title (Product Number)	Issue Date
<p>SQCS No. 8, <i>A Firm’s System of Quality Control</i> (Redrafted) (067026)</p> <p>Effective as of January 1, 2012. Early application is permitted.</p>	November 2010

### Statements on Standards for Accounting and Review Services (SSARSs)

Title (Product Number)	Issue Date
<p>SSARS No. 20, <i>Revised Applicability of Statements on Standards for Accounting and Review Services</i> (0606520)</p> <p>Effective for reviews of financial statements for periods beginning after December 15, 2011. Early application is permitted.</p>	February 2011

### Interpretations of Statements on Standards for Accounting and Review Services

Title	Issue Date
<p>Interpretation No. 17 of AR Section 80, <i>Compilation of Financial Statements</i></p> <p>“Required Supplementary Information That Accompanies Compiled Financial Statements”</p>	October 2011

Title	Issue Date
Interpretation of AR Section 90, <i>Review of Financial Statements</i> “Required Supplementary Information That Accompanies Reviewed Financial Statements”	October 2011

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