

ATTEST STANDARD 501 – Impact of PCAOB Audit Standard 5

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AT 501 Amendment Process

- Exposure draft issued shortly after SOX
- Exposure draft was never finalized waiting on AS 2
- The revised AT 501 was re-exposed along with SAS 112
- AT 501 was not issued waiting on AS 5
- AT 501 is being revised and will be issued in 2008 after re-exposure
- AS 5 and the exposure draft of AT 501 have many similar concepts
- AT 501 should be issued in 2008 with an effective date of December 2008

Attest Standards

- AT 101 is a umbrella standard covering all attest standards
- Underlying concepts of Subject Matter and or Assertions

ATTEST verse AS5

- Both are giving assurance i.e. an opinion
- Attest standards rely on the criteria for guidance to management and the auditor
- AT 501 engagements must be done at same time as audit but do not have to be performed by the same auditor
- Separate report

Types of AT 501 Engagements

- Engagements to examine the design and operating effectiveness of an entity's internal control
- Engagements to examine the design and operating effectiveness of a portion of an entity's internal control
- Engagements to examine only the suitability of design of an entity's internal control (no assertion is made about the operating effectiveness of internal control)
- Engagements to examine the design and operating effectiveness of an entity's internal control based on criteria established by a regulatory agency
- The committee is considering separating some of these engagements into a separate attest standard

Objective of an AT 501 engagement

- Opinion on effectiveness over ICFR -design only OR
- Opinion on effectiveness over ICFR – design and operation
- Opinion on financial statements would have be issued at same time.

Deficiencies Defined

- May be the same as AS 5 - waiting on international standards

Managements Framework

- Based on COSO or other criteria
- No specific requirements in standard
- Dirty Assertions are not acceptable

General Controls including IT General Controls

- Pervasive
- Hard to document and measure
- What has management done to measure and document
- General Controls document

Common elements with AS 5

- Walkthroughs
- Significant accounts
- Pervasive controls concepts
- Material weakness indicators
- Using work of others
- Multi locations
- Audit committees

SEC Guidance

- Management is responsible for maintaining evidential matter, including documentation, to provide reasonable support for its assessment.

What is “Reasonable”

- Reasonable assurance and reasonable detail is defined as “such level of detail and degree of assurance as would satisfy prudent officials in the conduct of their own affairs”
- Not a single conclusion or method, but a range

Two Broad Principles

- Management should evaluate whether it has implemented controls that adequately address the risk of material misstatement
- Management evaluation of evidence about the operation of its controls should be based on its assessment of risk

Evaluation process

- Identify financial reporting risks
- Identify controls that adequately address risks
- Consider entity level controls
- Consider ITGC's
- Evidential matter to support assessment
 - Documentation of design and entity level controls is an integral part of the support

Evaluation Process

- Evidence of operating effectiveness
 - Operating as designed
 - Person possesses authority and competence
- Higher risk = more evidence
- Implementing procedures to evaluate evidence

Questions?

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