

Auditing Standards Board Update

AICPA National Conference on
Banks and Savings Institutions
November 29, 2007

ASB Direction

- Makeup of Board
 - 19 Members
 - 5 Small / Medium Firm Members
 - 5 NASBA Representatives
 - 5 Non-Practicing (including public member)
 - 4 from “Big 4”
- Movement to “Harmonization” / Convergence

New Standards

- Effective in 2007
 - SAS 103 – Documentation
 - SAS 112 – Communication of Internal Control Related Matters Noted in an Audit
 - SAS 113 – Omnibus 2006
- Effective in 2008
 - SAS 104 – 111 – “Risk Assessment Standards”
 - SAS 114 - The Auditor’s Communications with Those Charged with Governance
- Effective in 2009
 - Statement on Quality Control Standards No. 7

Risk Assessment Standards

- The risk assessment standards consist of:
 - SAS No. 104, Amendment to Statement on Auditing Standards No. 1
 - SAS No. 105, Amendment to Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*
 - SAS No. 106, Audit Evidence
 - SAS No. 107, Audit Risk and Materiality in Conducting an Audit (Audit Risk and Materiality)
 - SAS, No. 108, Planning and Supervision
 - SAS No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (Assessing Risks)
 - SAS No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained (Performing Procedures)
 - SAS No. 111, Amendment to Statement on Auditing Standards No. 39, *Audit Sampling*

Risk Assessment Standards

- Why issued? The ASB believes that the SASs represent a significant strengthening of auditing standards which in turn will improve the quality of audits conducted under these standards
- Much of SAS 99 theory originated in our deliberations over risk assessment standards

Risk Assessment Standards

- Enhances the auditor's application of the audit risk model in practice by requiring:
 - More in-depth understanding of the entity and its environment, including its internal control
 - More rigorous assessment of the risks of material misstatement
 - Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed

Risk Assessment Standards

- The quality and depth of the required understanding of the entity and its environment, including its internal control, is significantly enhanced
- Aspects of the Entity's Environment¹
 - Industry, regulatory, and other external factors
 - Nature of the entity
 - Objectives and strategies and related business risks
 - Measurement and review of the entity's financial performance
 - Internal control

¹SAS 109, *Assessing Risks*, paragraphs 21 - 101

Risk Assessment Standards

- Identifying risks through considering
 - The entity and its environment, including its internal control
 - Classes of transactions, account balances, and disclosures
- Relating the identified risks to what could go wrong at the relevant assertion level
- Significant risks¹

¹SAS 109, *Assessing Risks*, paragraphs 102-121

Risk Assessment Standards

- Greater emphasis is placed on testing of disclosures
- Guidance on evaluating audit findings is clarified and expanded
- Documentation requirements are significantly expanded

SAS 114

- Required to communicate:
 - The auditor's responsibilities under GAAS
 - Auditor responsible for forming and expressing opinion
 - Does not relieve management or those charged with governance of their responsibilities
 - Audit designed to obtain reasonable, not absolute, assurance
 - Includes consideration of internal control, but not an opinion on its effectiveness
 - An overview of the planned scope and timing of the audit
 - Be careful not to compromise effectiveness of the audit

SAS 114

- Required to communicate (con't):
 - Significant findings from the audit
 - Qualitative aspects of significant accounting policies
 - Significant difficulties, if any, encountered
 - Uncorrected misstatements
 - Disagreements with management
 - Other significant and relevant findings or issues
 - Material corrected misstatements
 - Management representations requested
 - Management's consultation with other accountants
 - Significant issues discussed with management

Other Current ASB Projects

Audit and Attest Update

Audit Reports

- Task force is considering changes to SAS 58 to determine the relevancy of the existing reporting requirements and language to nonissuers.
- Audit Report Research Project – the objective is to research:
 - the “expectation gap”
 - how the audit report might be revised to better address the “expectation gap.”

Statement of Quality Control Standards NO. 7

- Provides more detailed guidance on client acceptance and continuance, and requires documentation of the resolution of significant issues.
- Provides more detailed guidance on engagement supervision and review, engagement documentation, and consultation policies and procedures.
- Requires policies and procedures for resolving differences of opinions, including a requirement that reports must not be issued until the differences of opinions are resolved.
- Requires annual monitoring procedures, which include one or more of the following:
 - Engagement quality control reviews.
 - Post-issuance reviews.
 - Inspection procedures.

Statement of Quality Control Standards NO. 7

- Firms are required to assign responsibility for monitoring to a person of appropriate authority, and are required to evaluate deficiencies and communicate recommendations for remedial action.
- Requires policies and procedures for dealing appropriately with complaints and allegations of noncompliance with professional standards or with the firm's system of quality control.

Audit and Attest Standards Update

Other Current ASB Projects

- Clarity Project
- Related Parties
- Required Supplementary Information/Supplementary Information
- Revisions to SAS No. 74, compliance auditing
- Revisions to SAS 69, GAAP hierarchy
- Guidance issued on fair value of alternative investments



