



Current Developments at the Auditing Standards Board

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Session objectives

- ▶ Discuss recent Auditing Standards Board (ASB) activity
- ▶ Discuss ASB clarity project
- ▶ Describe ASB future projects

Recent ASB activity



Final ASB standards

Title	Effective date
<ul style="list-style-type: none">▶ SAS No. 118, <i>Other Information in Documents Containing Audited Financial Statements</i>▶ SAS No. 119, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i>▶ SAS No. 120, <i>Required Supplementary Information</i>	Effective for audits of financial statements of non-issuer entities for periods beginning on or after 15 December 2010. Early application is permitted.
SAS No. 121, <i>Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information</i>	Effective for interim reviews of interim financial information of non-issuer entities for periods beginning after 15 December 2011. Early application is permitted.
SSAE No. 16, <i>Reporting on Controls at a Service Organization</i>	Effective for service auditors' reports of non-issuer entities for periods ending on or after 15 June 2011. Earlier implementation is permitted.

SAS No. 118 – Other information

- ▶ Other information (OI)
 - ▶ Information that is included in a document containing audited financial statements and the auditor’s report thereon, excluding required supplementary information
- ▶ Eliminates the distinction between OI that is in an auditor submitted vs. client prepared document
- ▶ Requires the auditor to
 - ▶ Make arrangements with management or those charged with governance to obtain the OI prior to the report release date
 - ▶ Read the OI that the auditor is aware of in order to identify material inconsistencies with the AFS
- ▶ If the auditor becomes aware of a material misstatement of fact or material inconsistency, discuss with management
 - ▶ After discussion – request management to consult and then consider the advice received
 - ▶ Notify those charged with governance

SAS No. 119 – Supplementary information

- ▶ In order to opine on whether supplementary information (SI) is fairly stated in relation to the financial statements as a whole:
 - ▶ The auditor needs to determine that certain conditions are met
 - ▶ SAS 119 specifies the procedures to be performed in addition to the procedures performed during the f/s audit
- ▶ SAS 119 report is different from extant AICPA AU Section 551 report
 - ▶ Reporting language is expanded to include:
 - ▶ A statement that SI is the responsibility of management and was derived from and related directly to underlying accounting and other records used to prepare the f/s
 - ▶ Discussion of the limited auditing procedures applied

SAS No. 120 – Required supplementary information

- ▶ Required supplemental information (RSI)
 - ▶ Information that a designated accounting standard setter requires to accompany an entity's basic f/s, RSI is not part of the basic f/s
 - ▶ A designated accounting standard setter considers the information to be an essential part of the financial reporting for placing the basic f/s in an appropriate operational, economic, or historical context
 - ▶ Authoritative guidelines for the methods of measurement and presentation of the information have been established
- ▶ Include an explanatory paragraph in the auditor's report on the f/s referring to the RSI.

SAS 121 – Revised applicability of SAS No. 100

- ▶ SAS 121 applies (and therefore SSARs are not applicable) to reviews of interim financial information if:
 - ▶ The entity's latest annual financial statements have been audited by the accountant or a predecessor;
 - ▶ The auditor either:
 - ▶ has been engaged to audit the entity's current year financial statements or
 - ▶ audited the entity's latest annual financial statements and, when it is expected that the current year financial statements will be audited,
 - ▶ the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review; and
 - ▶ The entity prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements

Service organizations

- ▶ The following two standards replace SAS No. 70:
 - ▶ SSAE No. 16, *Reporting on Controls at a Service Organization* (for service auditors)
 - ▶ Clarified SAS, *Audit Considerations Relating to an Entity Using a Service Organization* (for user auditors)

Service organizations

- ▶ AICPA SOC 1 Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting (SSAE No. 16)
- ▶ AICPA SOC 2 Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality and/or Privacy
- ▶ AICPA SOC 3 Trust Services Report

ASB clarity project

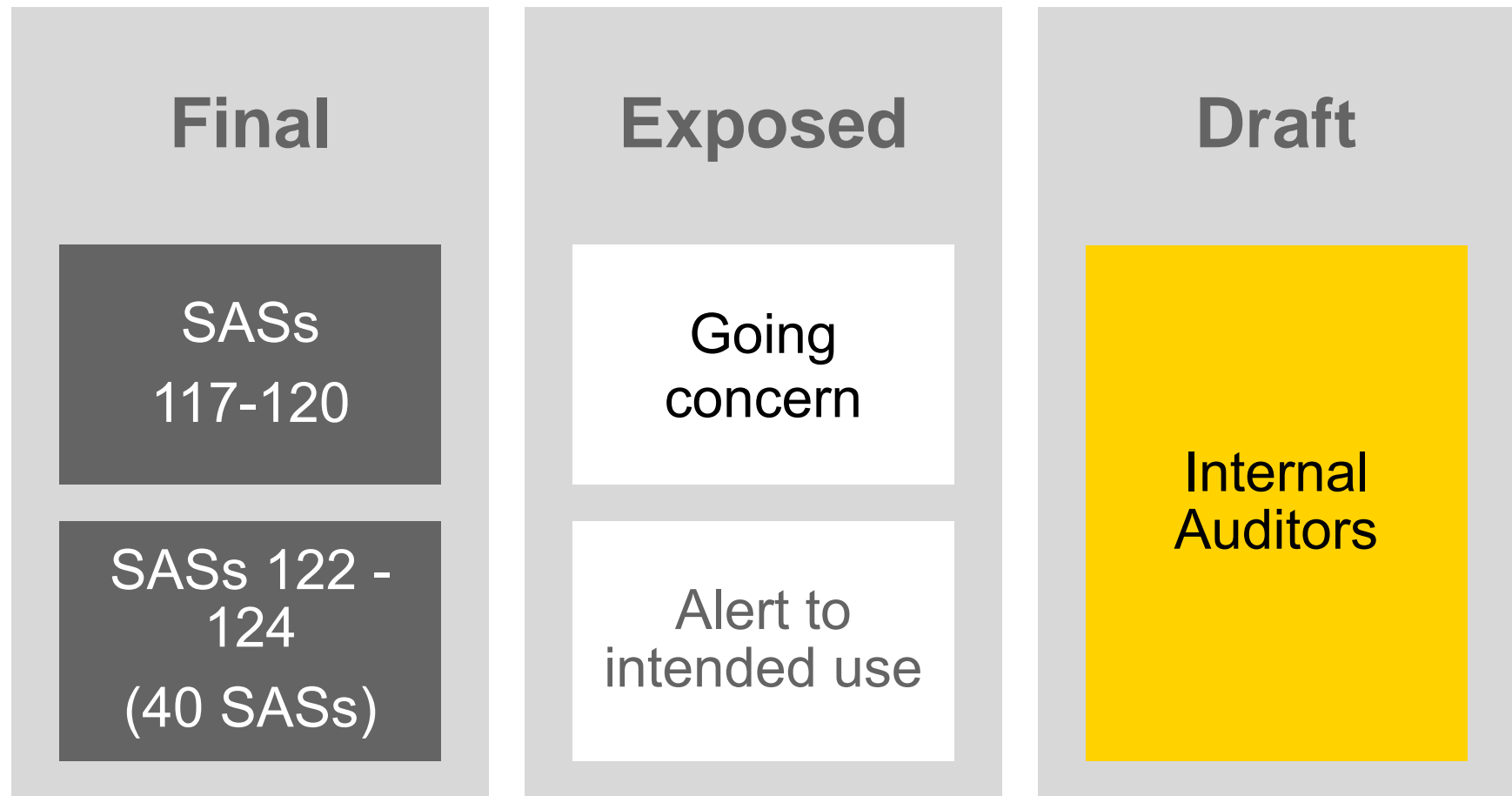


ASB clarity project – overview

- ▶ Goals
 - ▶ Address concerns over length and complexity of standards
 - ▶ Make standards easier to read, understand and implement
 - ▶ Will lead to enhancements in audit quality
- ▶ Convergence with International Standards on Auditing (ISAs)
 - ▶ Harmonize, not adopt
 - ▶ Most audits performed internationally are of nonpublic entities – therefore, ASB and IAASB have a similar focus
 - ▶ Avoid unnecessary differences with PCAOB
 - ▶ ASB standards—more “should”s than ISAs, but less than existing SASs
- ▶ Effective for audits of periods ending on or after December 15, 2012

IAASB, ASB, GAO, PCAOB

Current status of clarity project



SAS No. 122, Clarification and Recodification of Statements on Auditing Standards

- ▶ Issued October 2011
- ▶ Contains all finalized clarified standards except for those already issued (SAS No. 117 – 121) and those not yet finalized
- ▶ Topics not finalized when SAS No. 122 was issued:
 - ▶ SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries* (see SAS 124);
 - ▶ SAS No. 59, *The Auditor's Consideration of the Entity's Ability to Continue as a Going Concern*, as amended;
 - ▶ SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*;
 - ▶ SAS No. 87, *Restricting the Use of an Auditor's Report*

SAS 123 and SAS 124

- ▶ SAS No. 123, *Omnibus Statement on Auditing Standards—2011*
 - ▶ Amendments to conform SAS Nos. 117–118 to SAS No. 122 and address other changes necessitated by the Clarity Project
- ▶ SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*
 - ▶ Supersedes SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries*
 - ▶ Requires an emphasis-of-matter paragraph to highlight the foreign financial reporting framework, but permits the auditor to express an unqualified opinion

Codification

- ▶ Two codifications – extant and clarified
 - ▶ Codification numbers set by SAS No. 122
 - ▶ Temporary use of “AU-C” section identifier (until 2014)
 - ▶ The “AU-C” identifier will revert to “AU” in 2014, when the clarified SASs become fully effective
- ▶ Additions to clarified codification:
 - ▶ Preface, *Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards*
 - ▶ Cross-reference old AU numbers to new AU numbers
 - ▶ Summary of differences between SASs and ISAs
 - ▶ Glossary

Changes from existing auditing standards



Changes from extant standards


- ▶ No substantive changes to requirements for
 - ▶ Audit documentation
 - ▶ Auditor's communication with those charged with governance
 - ▶ Risk assessment standards
 - ▶ External confirmations
 - ▶ Analytical procedures
 - ▶ Audit sampling
 - ▶ Auditing accounting estimates
 - ▶ Written representations
 - ▶ Subsequent events
 - ▶ Consideration of omitted procedures after the report release date

Changes from extant standards – summary

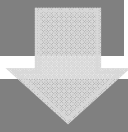
- ▶ Primary difference relates to Group Audit Standard
 - ▶ More specific as to what group engagement partner is responsible for
- ▶ Additional quality control (QC) guidance
 - ▶ QC responsibilities for the audit more specifically described
 - ▶ Overall QC function remains “firm” responsibility, but responsibilities are engagement partner’s and engagement team’s
- ▶ Some changes in audit report to more clearly describe management’s responsibility
 - ▶ New format to use report headings

Special considerations – Audit of group Financial Statements (AU 600)

Acceptance and continuance - group auditor;
identify components; preconditions



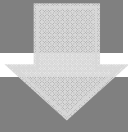
Understanding - group; components;
component auditors; make reference?



Materiality decisions and responding to risks
of material misstatement

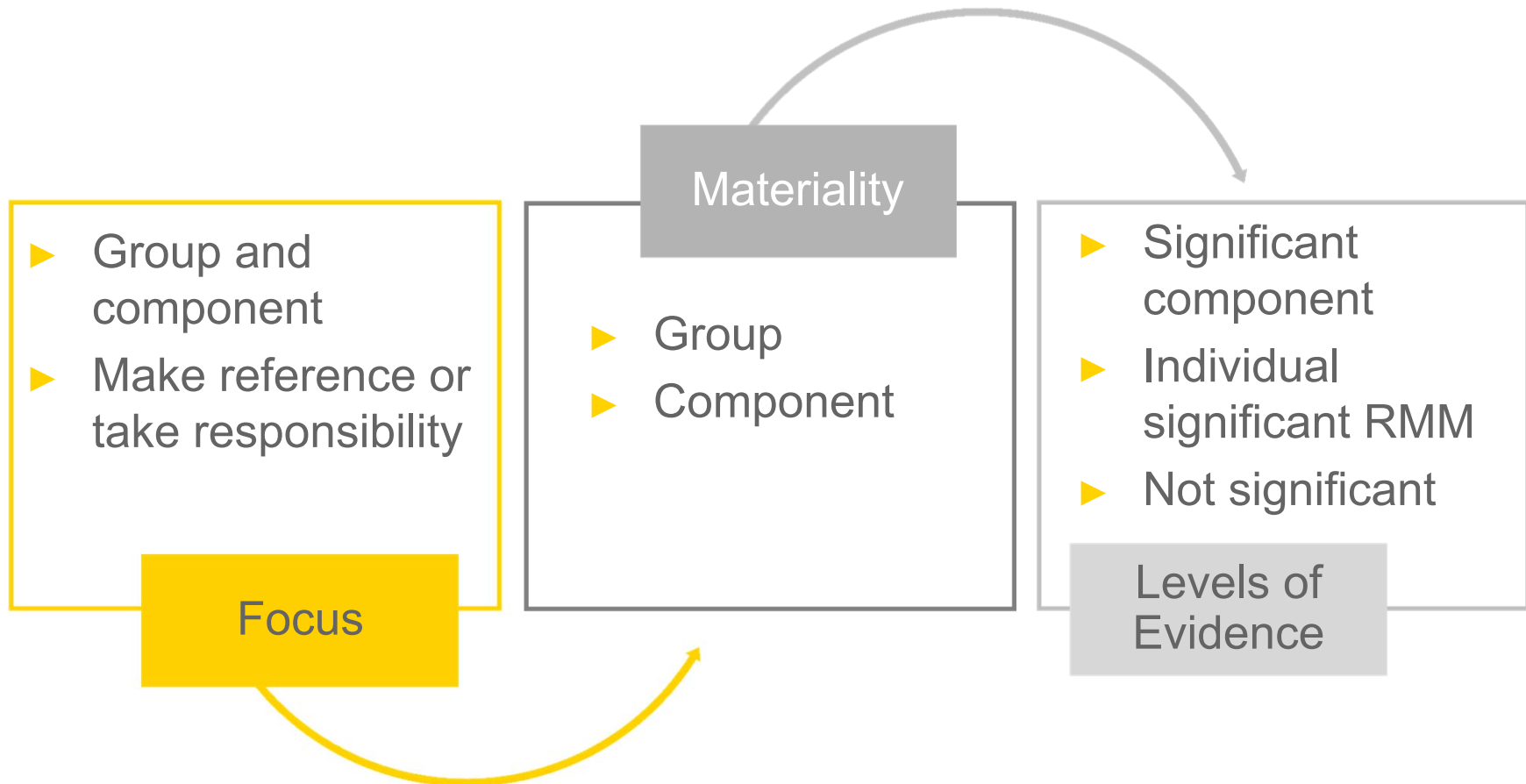


Other procedures - consolidation process;
subsequent events; evaluating evidence

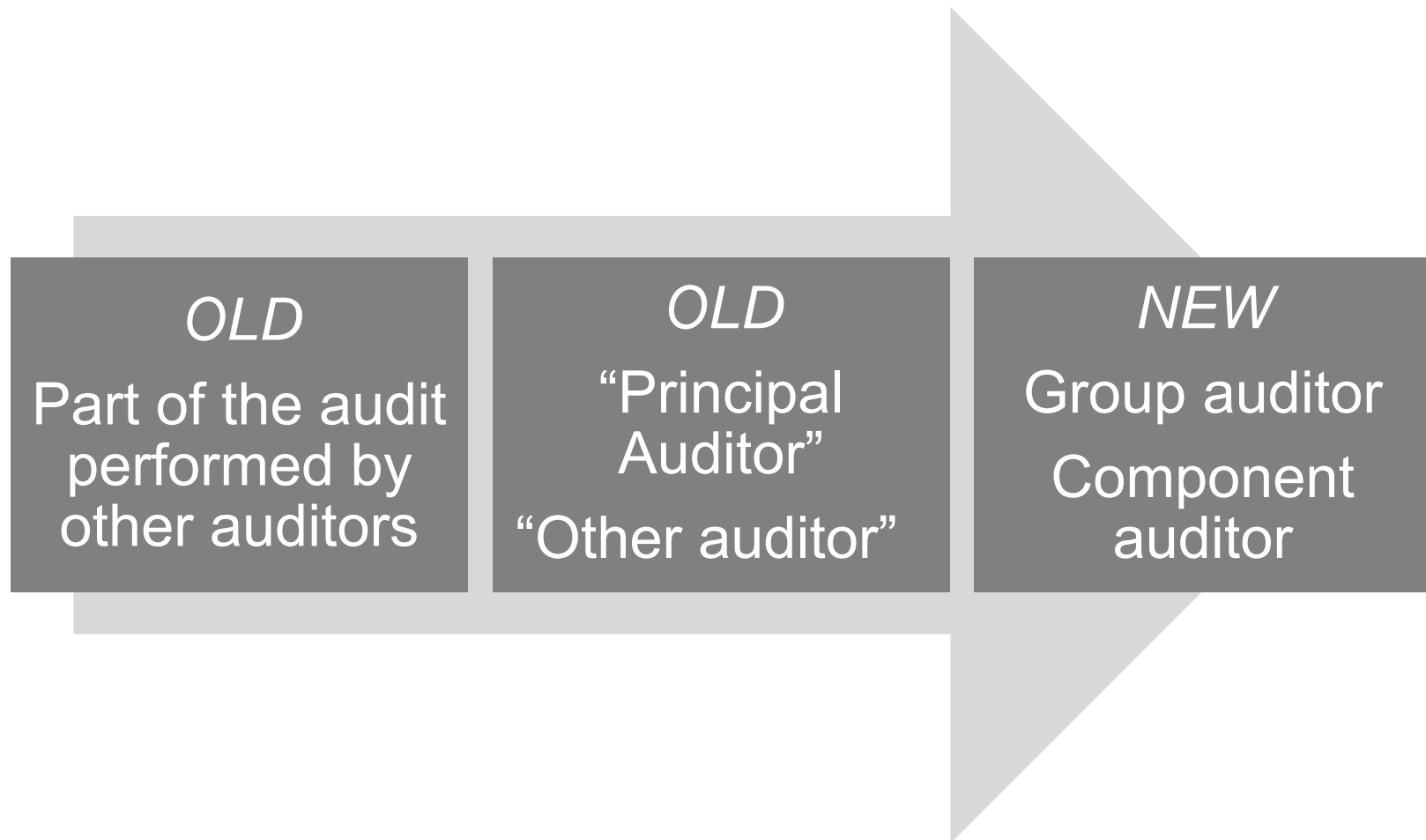


Communications - with component auditors;
with group governance and management

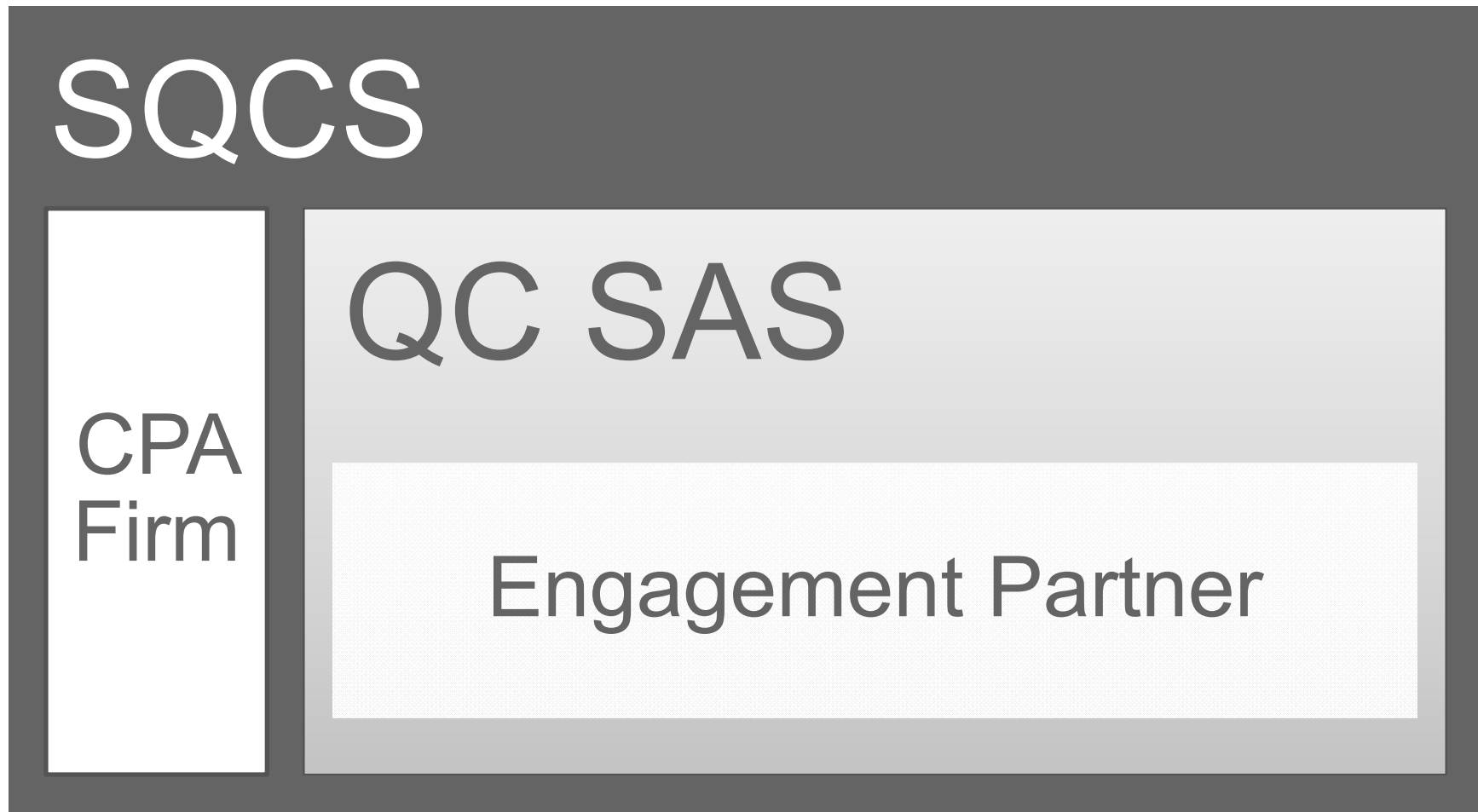
Effect of selected standards – Group Audits



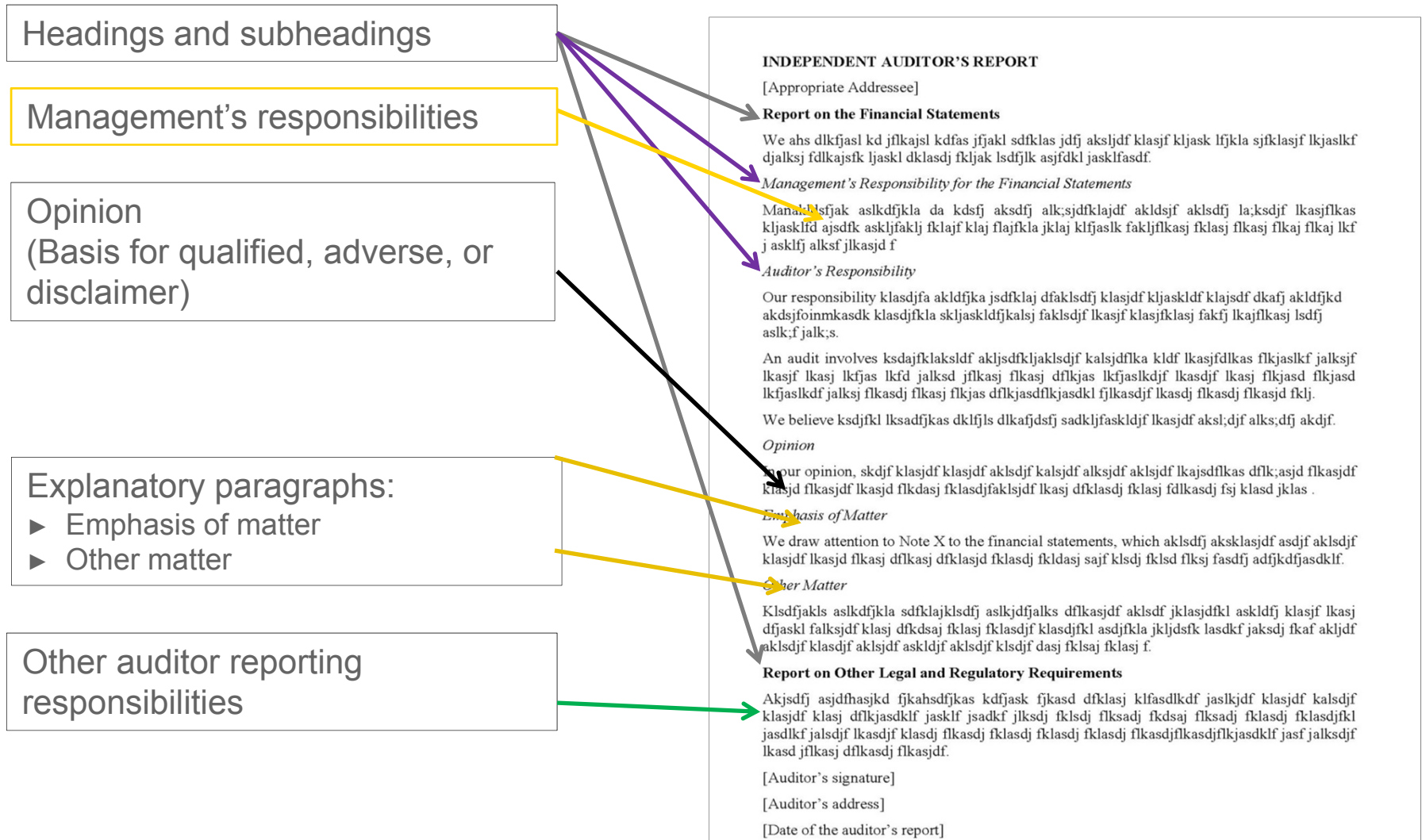
Effect of selected standards – Group audits



Effect of selected standards – quality control



Effect of selected standards – auditor reports



Auditor reports – management's responsibility

- ▶ ~~These financial statements are the responsibility of management~~
- ▶ Management is responsible for the preparation and fair presentation of the financial statements in accordance with [the applicable financial reporting framework]; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Effect of selected standards – auditor reports

- ▶ **Emphasis-of-matter paragraph**
 - ▶ Matters appropriately presented or disclosed
 - ▶ Examples:
 - ▶ Going concern (required)
 - ▶ Uncertainty relating to a pending unusually important litigation matter (elective)
- ▶ **Other-matter paragraph**
 - ▶ To understand audit matters
 - ▶ Examples:
 - ▶ Material inconsistency in other information in documents containing audited financial statements (required)
 - ▶ Reporting on more than one set of financial statements (elective)

Clarity project website resources

- ▶ <http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AudAttest/AudAttestStndrds/ASBClarity/Pages/ImprovingClarityASBStandards.aspx>
- ▶ Guide to Clarified and Converged Standards for Auditing and Quality Control
- ▶ All finalized SASs
- ▶ Mapping of Existing AU sections to Clarified SASs
- ▶ Summary of Differences Between Existing SASs and Clarified SASs
- ▶ Clarity Project FAQs
- ▶ Matrixes of detailed differences from ISAs

Future ASB activities



Future ASB activities

- ▶ Clarify and finalize remaining SASs (going concern and internal auditors)
- ▶ Convergence of attestation standards
- ▶ ASB strategic planning:
 - ▶ ASB strategic planning task force is considering which projects and initiatives it should undertake
 - ▶ Three to four year timeframe
 - ▶ ASB survey
 - ▶ sent to a variety of constituents, including CPAs, regulators, state societies, members of academia, and standard setters
 - ▶ Also available on AICPA website
 - ▶ ASB received over 240 responses to the survey

Questions?

