Dear Ms. Hazel:

Deloitte & Touche LLP (D&T) is pleased to respond to the request for public comment from the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) on its proposed Statement on Auditing Standards (SAS), An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements (the “proposed SAS”). We support the issuance of this proposed SAS as we believe that it is appropriate to incorporate the content of extant AT section 501, An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements, from the attestation standards into generally accepted auditing standards (GAAS) since engagements performed under extant AT section 501 are required to be integrated with an audit of financial statements. Given the ASB’s strategy, which includes avoiding unnecessary differences between its standards and those of the Public Company Accounting Oversight Board (PCAOB), this approach is further justified as the PCAOB had previously issued Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements (AS 5).

We have responded to questions posed in the explanatory memorandum, as well as provided overall and other paragraph-specific comments on the proposed SAS. In our recommendations for specific changes, additions are noted in bold underline and deletions are noted in strike-through text. Where text has been moved from one existing paragraph to another paragraph, this is noted by double underline.

Responses to Questions Posed in the Explanatory Memorandum

1. Are respondents aware of any unintended consequences that would result from moving the content of extant AT section 501 from the attestation standards into GAAS?

We have not identified any significant unintended consequences. We believe that in practice, companies already view the professional requirements and other explanatory material within extant AT section 501 as a “de facto” audit standard.

The explanatory memorandum indicates that extant AT section 501 is expected to be
withdrawn when the proposed SAS is issued as a final standard. It also notes that the ASB is considering developing, at a later date, an attestation standard to address examinations of internal control other than internal control over financial reporting (ICFR) that is not integrated with an audit of financial statements. We therefore recommend that in the interim, the ASB draft an attestation interpretation to address common questions that practitioners may have regarding performing an attestation engagement pertaining to an examination of an entity’s ICFR that is not integrated with an audit of financial statements. We believe that an interpretation of AT section 101 is an appropriate place to issue such interim guidance.

2. Do respondents agree with the approach the ASB has taken in proposing a separate standalone SAS instead of addressing an integrated audit in each relevant existing AU-C section?

We agree with the approach that the ASB has taken in proposing a standalone SAS. We believe that a standalone SAS provides for the clearest, most fulsome picture of the requirements for auditors. As mentioned previously, this is also consistent with the approach taken by the PCAOB with AS 5.

3. Do the respondents agree with the approach the ASB has adopted relating to the 2013 COSO framework?

While we acknowledge that the Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (“2013 COSO framework”), which is effective December 15, 2014, will supersede the COSO framework previously issued in 1992, we emphasize that for integrated issuer audits the U.S. Securities and Exchange Commission (SEC) requires only “that management must base its evaluation of the effectiveness of the company's internal control over financial reporting on a suitable, recognized control framework that is established by a body or group that has followed due-process procedures, including the broad distribution of the framework for public comment.”1 We believe that the proposed SAS would benefit from greater neutrality as it relates to the benchmarks used to measure or evaluate ICFR, as this would allow for the use of frameworks that may become available in the future. We therefore recommend that any requirement indicating the implementation of a presumed or required framework be modified or removed. This would also be applicable to any reference to the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government (the Green Book), which has been revised and is effective beginning fiscal year 2016.

Further, we believe that consistent with our recommendation regarding the deletion of any language presuming, or requiring, that management use either the 2013 COSO framework or the Green Book, we also recommend striking the requirements within paragraphs 26-30 that reference the 17 principles of the 2013 COSO framework.

We have included specific proposed language modifications within the applicable paragraphs below in the “Paragraph-Specific Comments” section of this letter to address...

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these recommendations.

4. Does the defined term “significant class of transactions, account balance, or disclosure” have the effect of better aligning terminology with minimal impact on practice?

We agree that the defined term has the effect of better aligning terminology with that used elsewhere in GAAS.

Overall Comments

We recommend that the phrase “management’s assertion” be replaced with “management’s assessment” throughout the proposed SAS to align the language more closely with that of PCAOB AS 5 as well as the Federal Deposit Insurance Corporation’s Rules and Regulations Part 363 – Annual Independent Audits and Reporting Requirements. This will also benefit the users of the proposed SAS by eliminating unnecessary terminology differences. Please note that this recommendation is not reflected in the “Paragraph-Specific Comments” below.

We have also noted the inconsistent construct of the phrases “or detected and corrected,” and “or detect and correct.” We have identified seven instances where the comma has been inappropriately omitted. The following paragraphs should be amended to insert the comma: paragraph A34 (first bullet); paragraph A34 (second bullet); paragraph A34 (third bullet); paragraph A91; paragraph A150 Exhibit A-Illustrative Reports Illustration 2 – Adverse Opinion on ICFR (under the heading “Basis for Adverse Opinion”); paragraph A150 Exhibit A-Illustrative Reports Illustration 3 – Disclaimer of Opinion on ICFR (under the heading “Basis for Disclaimer of Opinion”); and paragraph A150 Exhibit A-Illustrative Reports Illustration 5 – Combined Report Expressing an Unqualified Opinion on ICFR and an Unmodified Opinion on the Financial Statements (under the heading “Definition and Inherent Limitations of Internal Control Over Financial Reporting”).

Paragraph-Specific Comments

Paragraphs 5 and 6

Given that the term “criteria” is included in the language relating to the objectives, we recommend that the term be reflected in the listing of defined terms in paragraph 5 with the characteristics disclosed separately as a requirement after paragraph 7. Accordingly, we recommend that extant paragraph 6 (with certain minor editorial revisions) be moved to after paragraph 7. See the following editorial suggestions:

5. **Criteria. The benchmarks used to measure or evaluate ICFR.**

6. 7x. Reference to criteria in this proposed SAS means the benchmarks used to measure or evaluate ICFR. Criteria are should be both suitable and available to the intended users of management’s report on ICFR. Suitable criteria should exhibit all of the following characteristics:

- **Relevance.** Criteria are relevant to ICFR.

- **Objectivity.** Criteria are free from bias.
• **Measurability.** Criteria permit reasonably consistent measurements, qualitative or quantitative, of ICFR.

• **Completeness.** Criteria are complete when the evaluation of the effectiveness of ICFR prepared in accordance with the criteria does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of management’s report on ICFR.

**Paragraphs 7, A13, and 11**

In order to more closely align with AU-C Section 210, *Terms of Engagement*, paragraph 6, we recommend that an additional requirement relating to access to information and persons be included as a precondition for an audit of ICFR in paragraph 7.

Additionally, in order to further expand upon the “as of date” for the integrated audit as discussed in paragraph 7b, we believe that certain of the language in paragraph 11 should be included as an additional precondition for the audit of ICFR. Currently, paragraph 11 in the proposed SAS is reflected as paragraph 3 in extant AT section 501. We believe that this paragraph is essential to the understanding of the auditor as to what conditions need to be present in order for the auditor to commence the engagement, and consequently should be given due prominence. Paragraph 11 is also revised to remove the requirement that would now appear as paragraph 7c.

We also have some minor editorial suggestions to paragraph A13 to further clarify the requirements in paragraph 7c (new). We recommend the following edits be made:

7. AU-C section 210, *Terms of Engagement* (AICPA, *Professional Standards*), requires the auditor to establish whether the preconditions for an audit are present. In an audit of ICFR, the auditor should (Ref: par. A8)

   a. obtain the agreement of management that it acknowledges and understands its responsibilities for …

   v. providing the auditor with

      (1) access to all information of which management is aware that is relevant to management’s assessment of ICFR, such as records, documentation, and other matters;

      (2) additional information that the auditor may request from management for the purpose of the audit of ICFR; and

      (3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

   b. …

   c. determine that the audit of ICFR is integrated with an audit of financial statements that covers the same period of time. (Ref: par. A13)
A13. Ordinarily, the auditor is engaged to audit the effectiveness of the entity’s ICFR as of the end of the entity’s fiscal year; however, management may select a different date. If the auditor is engaged to audit the effectiveness of an entity’s ICFR at a date different from the end of the entity’s fiscal year, the audit is, nevertheless, required by paragraphs 7a–iv, b and 7c to be integrated with a financial statement audit as of that date specified in management’s assessment.

11. If the auditor is engaged to audit the effectiveness of an entity’s ICFR for a period of time, the requirements and guidance in this proposed SAS should be modified accordingly, and the audit of ICFR should be integrated with an audit of financial statements that covers the same period of time.

Paragraph A8

We recommend striking the application material in paragraph A8 from the proposed SAS. We believe that it is more appropriate to amend AU-C Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, (AU-C 200) and include the paragraph as application material to AU-C 200, paragraph 15.

Paragraphs 8 and A14

The application material in paragraph A14 is related to the presumption that the 2013 COSO framework will be used by management, and is duplicative when considered together with paragraph A36. As such we recommend combining the application material contained in paragraph A14 with that of paragraph A36, and consequently deleting paragraph A14. The cross-reference to the application material in paragraph 8 would also be deleted. See the editorial suggestions below:

8. The auditor should evaluate the effectiveness of the entity’s ICFR using the same suitable and available criteria used by management for its evaluation. (Ref: par. A14)

A14. The 2013 COSO framework and the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government (the Green Book) provide suitable and available criteria against which management may evaluate and report on the effectiveness of the entity's ICFR. The 2013 COSO framework and the Green Book describe an entity’s internal control as consisting of five components: control environment, risk assessment, information and communication, control activities, and monitoring, each with related principles. If management selects another framework, see paragraph 6 for guidance on evaluating the suitability of the framework selected by management.

Paragraphs 9, A15, and A111

The requirement in paragraph 9 relating to management’s refusal to furnish a written representation and the resulting withdrawal is a reporting requirement. We recommend that this reporting requirement be moved to under the heading “Scope Limitations,” after paragraph 76, and bifurcated into two separate requirement paragraphs, which we have numbered as paragraphs 76x and 76y below. The related application material in paragraph A15 would also be deleted. Further, it was noted that the application material in paragraph A111 also relates to disclaiming an opinion when withdrawal is not
permitted under law or regulation. We recommend striking paragraph A111 as it is duplicative when considering the requirement in new paragraph 76y, as well as the related cross-reference in paragraph 76. See the following suggested edits:

9. In accordance with paragraph 7a.iii, the auditor should obtain a written assertion from management about the effectiveness of the entity’s ICFR. If management refuses to furnish a written assertion despite its initial agreement to provide one, the auditor should withdraw from the engagement. However, if law or regulation does not allow the auditor to withdraw from the engagement and management refuses to furnish a written assertion, the auditor should disclaim an opinion on ICFR. (Ref: par. A15)

A15. See paragraphs 76–79 when disclaiming an opinion, including the requirement for the auditor’s report to include a description of any material weaknesses identified.

76. If, after accepting the engagement, there is a limitation on the scope of the engagement, the auditor should withdraw from the engagement or disclaim an opinion. The auditor also should consider the implications on the financial statement audit. (Ref: par. A111)

76x. **When a scope limitation arises because** If management refuses to furnish a written assertion, despite its initial agreement to provide one, the auditor should withdraw from the engagement.

76y. **However, if** law or regulation does not allow the auditor to withdraw from the engagement and management refuses to furnish a written assertion, the auditor should disclaim an opinion on ICFR.

A111. When withdrawal is not possible under applicable law or regulation, the auditor would disclaim an opinion.

Paragraph A18

The last sentence of the application material in paragraph A18 refers to a “variety of reasons,” but there is no further clarification as to what those reasons may be. Accordingly, we recommend modifying the wording as follows:

A18. To express an opinion on the financial statements, the auditor ordinarily performs tests of controls and substantive procedures. Tests of controls are performed when the auditor’s risk assessment includes an expectation of the operating effectiveness of controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the relevant assertion level. Tests of controls are designed to obtain sufficient appropriate audit evidence that the controls are operating effectively for the particular time or throughout the period of reliance. However, in a financial statement audit, the auditor is not required to test controls for all relevant assertions, and, for a variety of reasons, the auditor may choose not to do so.

Paragraphs 25, A36, and A37

Consistent with our response to question 3 above that there should be greater neutrality as it relates to
the benchmarks used to measure or evaluate ICFR, we suggest modifying the requirements in paragraph 25 to eliminate references to the 2013 COSO framework as well as “relevant principles.” As noted above, we recommend combining paragraphs A14 and A36 due to unnecessary duplication. Paragraph A14 would be deleted, as noted above. We also believe that a footnote reference, in the application material paragraph A36, to AU-C Section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, would provide further clarity regarding the internal control components.

Further, given that paragraph 25 requires the auditor to adapt and apply the requirements of the proposed SAS as necessary, depending on the framework used, we recommend that the application material in paragraph A37 be deleted as we do not believe that paragraph 25 needs any further clarification. Consequently the cross-reference to paragraph A37 in paragraph 25 should also be deleted. Our editorial suggestions are as follows:

25. The auditor should perform the procedures required by paragraphs 26–30 to evaluate the five components and relevant principles of internal control, and determine whether the five components and relevant principles are present and functioning in the design, implementation, and operation of ICFR, and whether the five components are operating together in an integrated manner to achieve the entity’s financial reporting objectives. When management uses a framework other than the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO framework), the auditor should adapt and apply the requirements in paragraphs 26–30, as necessary, based on the framework used by management. (Ref: par. A36–A37)

A36. An entity’s internal control consists of five components: control environment, risk assessment, information and communication, control activities, and monitoring [footnote x]. This proposed SAS presumes management uses the 2013 COSO framework. Paragraphs 26–30 include specific requirements for evaluating the five components of internal control, by assessing the principles in the 2013 COSO framework. The principles are fundamental concepts associated with components that are suitable to all entities. The 2013 COSO framework indicates that the components and relevant principles are requisite to an effective system of internal control. Entities select and develop controls within each component to effect relevant principles. Controls are interrelated and may support multiple objectives and principles. Examples of frameworks that may be used include the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO framework) and the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government (the Green Book). These frameworks provide suitable and available criteria against which management may evaluate and report on the effectiveness of the entity’s ICFR. See paragraph 7x for requirements on evaluating the suitability of the framework selected by management.

A37. When management uses the Green Book or another framework, paragraph 25 requires the auditor to adapt and apply the requirements in paragraphs 26–30, as necessary, based on the framework used by management. For example, when management uses the Green Book, the auditor assesses the relevant principles in the Green Book in lieu-
of the principles listed in paragraphs 26–30.

**Footnote x:** Paragraphs .15 -.25 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, Professional Standards).

**Paragraphs 26 – 30**

As noted in our response to question 3 above, we recommend the deletion of the second sentence and the bullets relating to the 17 principles of the 2013 COSO framework in each of the paragraphs 26 through 30.

**Paragraph A55**

We recommend modifying the language in the last sentence of paragraph A55 in order for the sentence to read more clearly. The suggested edit is as follows:

**A55.** The identification of risks and controls within IT is not a separate evaluation. Instead, it is an integral part of the top-down approach used to identify likely sources of misstatement and the controls to test, as well as to assess risk and allocate audit effort. AU-C section 315 discusses the effect of IT on ICFR and the assessment of risks of material misstatement.

**Paragraph A64**

We believe that the application material in paragraph A64 more appropriately clarifies and aligns with the requirement in paragraph 44 and consequently the paragraph A64 should be moved to follow paragraph A71.

**Paragraph A70**

We recommend expanding the language in paragraph A70 to include examples of an acceptable amount of evidence when testing through inquiry. Paragraph A72 contains a similar construct relating to smaller, less complex entities. We suggest modifying the paragraph as follows:

**A70.** Some types of tests, by their nature, produce greater evidence of the effectiveness of controls than other tests. The following tests that the auditor might perform are presented in order of the evidence that they ordinarily would produce, from least to most: inquiry, observation, inspection of relevant documentation, recalculation, and reperformance of a control. Inquiry alone, however, does not provide sufficient appropriate audit evidence to support a conclusion about the effectiveness of a control. Inquiry combined with other procedures such as observation, inspection of documentation, or the reperformance of certain controls may provide appropriate audit evidence to support a conclusion about the operating effectiveness of the control.

We also recommend including a reference in paragraph 42, which addresses the sufficiency and appropriateness of evidence, to the application guidance in paragraph A70.

**Paragraphs 51, 54, and A90; Appendix A paragraph 5a; and Appendix B AU-C Section 265 paragraph**
The phrase “significant classes of transactions, account balances, and disclosures, and their relevant assertions” has not been consistently used throughout the proposed SAS. We recommend that the following edits be made to ensure consistent use of terminology:

51. For purposes of forming an opinion on the effectiveness of ICFR, the auditor should evaluate the severity of each deficiency in ICFR to determine whether the deficiency, individually or in combination, is a material weakness as of the date specified in management's assertion about ICFR. In performing such evaluation, the auditor should determine whether deficiencies that affect the same significant class of transactions, account balance, or and disclosure, and their relevant assertion, or component of ICFR, collectively result in a material weakness. (Ref: par. A84–A90)

54. The auditor should evaluate the severity of each deficiency in ICFR to determine whether the deficiency, individually or in combination, is a significant deficiency. In performing such evaluation, the auditor should determine whether deficiencies that affect the same significant class of transactions, account balance, or and disclosure, and their relevant assertion, or component of ICFR, collectively result in a significant deficiency. (Ref: par. A93–A94)

90. A deficiency in ICFR on its own may not be sufficiently important to constitute a material weakness. However, a combination of deficiencies affecting the same significant class of transactions, account balance, or and disclosure, and their relevant assertion, or component of ICFR, may increase the risks of misstatement to such an extent to give rise to a material weakness. A combination of deficiencies that affect the same significant class of transactions, account balance, or and disclosure, and their relevant assertion, or component of ICFR, also may collectively result in a significant deficiency.

Appendix A

5a. when the period-end financial reporting process occurs at the holding company and the IDI comprises substantially all of the consolidated total assets, there may be no distinguishable difference between the IDI’s and its holding company’s process for purposes of the integrated audit. This is because the auditor’s risk assessment, including the determination of significant classes of transactions, account balances, and disclosures, and their relevant assertions, the selection of controls to test, and the determination of the evidence necessary to conclude on the effectiveness of a given control, would likely be the same for the IDI and the holding company. In this circumstance, the period-end financial reporting process of the holding company would be, in effect, the period-end financial reporting process of the IDI and, therefore, would be included in the scope of the integrated audit of the IDI.
Appendix B

AU-C Section 265

Communicating Internal Control Related Matters Identified in an Audit

.A10 Controls may be designed to operate individually, or in combination, to effectively prevent, or detect and correct, misstatements. For example, controls over accounts receivable may consist of both automated and manual controls designed to operate together to prevent, or detect and correct, misstatements in the account balance. A deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency or a material weakness. However, a combination of deficiencies affecting the same significant class of transactions, account balance, or and disclosure, and their relevant assertion; or component of internal control, may increase the risks of misstatement to such an extent to give rise to a significant deficiency or material weakness.

Paragraph 53

The word “determines” is a definitive action, yet the rest of paragraph 53 describes the action that is necessary in order to come to the conclusion; therefore, we recommend modifying the paragraph to more closely reflect the wording in PCAOB AS 5 paragraph 70. The suggested edits are as follows:

53. If the auditor determines that a deficiency, or a combination of deficiencies, in ICFR is not a material weakness, might prevent the auditor should consider whether prudent officials in the conduct of their own affairs, having knowledge of the same facts and circumstances, would likely reach the same conclusion. 

Paragraph 60

We recommend that the requirement in paragraph 60 be deleted as it is duplicative of a written representation that the auditor would receive from management as it relates to the financial statement audit. This requirement is noted in AU-C Section 580, Written Representations, paragraph 11, which states that: “The auditor should request management to provide written representations that (a) it has provided the auditor with all relevant information and access, as agreed upon in the terms of the audit engagement, and (b) …”

Paragraph 64

We recommend including application guidance to clarify that the requirement in paragraph 64 is only applicable to governmental entities or all entities performing audits in accordance with Generally Accepted Government Auditing Standards (GAGAS). Further, we believe that the application material should be expanded, by the insertion of proposed paragraph A101x, to include an explanation as to the reason why governmental entities are specifically granted this exception. We recommend the following edits be made:

A101x. The auditor’s written communication for a governmental entity would generally not be made prior to management’s report on ICFR, the entity’s financial
statements, and the auditor’s report thereon, being made publicly available. This is in order to provide the user with the appropriate context to evaluate the significant deficiencies or material weaknesses contained in the written communication that were identified during the integrated audit.

Paragraph 68

Similar to the requirements to include headings in the auditor’s report for the various reporting elements as noted in paragraph 67, we believe that it would be beneficial to have a requirement to include an appropriate heading for the other-matter paragraphs. Further, the proposed SAS should include new application material, after paragraph A103, to describe what those headings may be as this would provide additional clarity. We recommend modifying the paragraphs as follows:

68. If the auditor issues a separate report on ICFR, the auditor should add the following paragraph under an appropriate heading, in an other-matter paragraph, in accordance with AU-C section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report (AICPA, Professional Standards), to the auditor’s report on the financial statements: …(Ref: par. A1043x-A105)

A103x. When an other-matter paragraph, relating to ICFR, is to be reflected in a financial statement audit report, the auditor may include a heading above the other-matter paragraph such as “Report on Internal Control Over Financial Reporting.” When an other-matter paragraph, relating to the financial statement audit, is to be reflected in an ICFR report, the auditor may include a heading above the other-matter paragraph such as “Report on the Financial Statements.”

Paragraph 78

We believe that the proposed SAS should require the auditor to express an adverse opinion whenever the auditor is aware of a material weakness. When a scope limitation also exists, the auditor’s report on the audit of ICFR should include language related to the scope limitation in addition to the adverse opinion. We understand that this requirement would create an inconsistency with PCAOB AS 5, but we believe that the guidance in PCAOB AS 5 is not clear, and that what we are suggesting is not only clear, but is fundamentally correct.

Paragraph A115

We recommend modifying the paragraph as follows:

A115. AU-C section 600 addresses special considerations that apply to group audits, in particular those that involve component auditors. AU-C section 600 is applicable, adapted as necessary, to the audit of ICFR, considering the requirements and guidance related to multiple components discussed beginning in paragraphs A52-35 and 86 of this section.

Paragraph 81

We recommend modifying paragraph 81 as follows:
81. As required by AU-C section 600, the group engagement partner should determine whether to make reference to a component auditor in the report on the ICFR over the group financial statements. Reference to the audit of a component auditor in the auditor’s report on the ICFR over the group financial statements should not be made unless

a. the engagement partner has determined that the component auditor has performed an audit of the component’s ICFR of the component financial statements in accordance with the relevant requirements of GAAS (or, if applicable, the standards promulgated by the PCAOB).

b. the component auditor has issued an auditor’s report on ICFR that is not restricted as to use. (Ref: par. A116-A117)

Paragraphs A118 and A119

We believe that the application material in paragraph A119 does not clearly articulate the auditor’s responsibilities when there is additional information outside of management’s report that contains a material misstatement of fact. Extant AT section 501 paragraph 128 more fully details the required response and should be reinstated in the proposed SAS as a new requirement, which we have reflected below as paragraph 82x. This would consequently result in minor edits to paragraph A118 and the deletion of paragraph A119. The suggested edits are as follows:

82x. If management makes the types of disclosures described in paragraph 82 outside its report and includes them elsewhere within a document that includes the auditor’s report, the auditor would not need to disclaim an opinion on such information. However, in that situation, if the auditor believes that management’s additional information contains a material misstatement of fact, the auditor should apply AU-C section 720, Other information in Documents Containing Audited Financial Statements (AICPA, Professional Standards) adapted, and applied, as necessary to the audit of ICFR and take appropriate action. (Ref: par. A118)

A118. An entity may publish various documents that contain information in addition to management’s report and the auditor’s report on ICFR. AU-C section 720, Other Information in Documents Containing Audited Financial Statements (AICPA, Professional Standards), establishes requirements and provides guidance with respect to such additional information that are adapted and applied, as necessary, to the audit of ICFR, including responding appropriately to material misstatements of fact. AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements (AICPA, Professional Standards), may require the auditor to take additional action.

A119. If management makes the types of disclosures described in paragraph 82 outside its report and includes them elsewhere within a document that includes the auditor’s report, the auditor would not need to disclaim an opinion on such information. However, in that situation, the auditor’s responsibilities are the same as those described in paragraph 82, if the auditor believes that the additional information—
contains a material misstatement of fact.

Paragraph A120

We believe that the wording in paragraph A120 should reflect that the auditor was not engaged to perform any procedures on the additional information, and therefore we do not express any opinion on such information. We suggest modifying the paragraph as follows:

A120. The following is an example of wording used to disclaim an opinion on such additional information:

Other Matter

We were not engaged to perform auditing procedures on [insert reference to the additional information, such as management’s cost benefit statement] and as such we do not express an opinion or any other form of assurance on [describe additional information, such as management’s cost-benefit statement].

Paragraph 85

We noted that there is a reference in paragraph 85 to the “as of date specified.” We recommend that the word “specified” be deleted as it is superfluous. The “as of date” has already been determined, according to paragraph 4a, to be the “date specified in management’s assertion about ICFR.” We suggest making the following editorial revisions:

85. If the auditor obtains knowledge about conditions that did not exist at the as of date specified but arose subsequent to that date and before the release of the auditor’s report and such subsequent information has a material effect on the entity’s ICFR the auditor should include in the auditor’s report an other-matter paragraph describing the subsequently discovered fact and its effects or directing the reader's attention to the subsequently discovered fact and its effects as disclosed in management's report. (Ref: par. A123)

Paragraph A130

We recommend the following modification to the paragraph as follows:

A130. AU-C section 402, Audit Considerations Relating to an Entity Using a Service Organization (AICPA, Professional Standards), contains the requirements and application guidance for auditors of the financial statements of entities that use a service organization (user auditors). AU-C section 402 addresses an auditor’s responsibility for obtaining sufficient appropriate audit evidence in an audit of the financial statements of an entity that uses one or more service organizations (a user entity). Services provided by a service organization are relevant to the audit of a user entity’s financial reporting statements when those services and the controls over them affect the user entity’s information system. The auditor applies the relevant concepts described in AU-C section 402 to the audit of ICFR. Refer to AU-C section 402 for guidance when the service organization uses a subservice organization.
Paragraph A148 - Appendix A: Reporting Under Section 112 of the Federal Deposit Insurance Corporation Improvement Act

Layout

We recommend disaggregating the language in Appendix A into separate paragraphs with titled sub-headings. We believe that this will clarify and increase comprehensibility of the information. The following sub-headings are suggested:

Paragraph 1: Financial Reporting under the Federal Deposit Insurance Act
Paragraph 2: Definition of ICFR for FDICS Purposes
Paragraph 3: IDI Reporting Requirements
Paragraph 4: Evaluation of IDI Financial Reporting Process
Paragraph 5: Organization Structure
Paragraph 6: IDI Not Subject to Section 404 of Sarbanes-Oxley Act of 2002
Paragraph 7 and 8: Use of the Internal Control — Integrated Framework (2013) (COSO)

Paragraph 7

We recommend modifying the paragraph as follows:

“Management may evaluate and report on the effectiveness of the IDI’s ICFR based on the report Internal Control — Integrated Framework (2013), issued by Committee of Sponsoring Organizations of the Treadway Commission’s (COSO)…”

Paragraph 8

We recommend modifying the paragraph as follows:

“… criteria established in the Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) …”

Paragraph A149 - Appendix B: Proposed Amendments to Various Sections in SAS No. 122

It was noted that a proposed amendment was made to the definition of “Material Weakness” as it relates to ICFR, but no similar conforming amendment was made to the definition “Significant Deficiency.” See recommended edits below:

AU-C Section 265, Communication Internal Control Related Matters Identified in an Audit

.07 …

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.
Paragraph A150 - Exhibit A — Illustrative Reports

We recommend that certain changes should be made to the Illustrative Reports in order to conform, in part, to suggested modifications made elsewhere within this comment letter. The revisions are applicable to Illustration 1 – Unmodified Opinion on ICFR; Illustration 2 – Adverse Opinion on ICFR; Illustration 3 – Disclaimer of Opinion on ICFR; and Illustration 4 – Unmodified Opinion on ICFR Making Reference to a Component Auditor.

We recommend that footnote 2 be revised as follows:

For example, the following may be used to identify the criteria: "criteria established in the 2013 Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."

We recommend modifying the language under the heading “Auditor’s Responsibility” of the Illustrative Reports to more closely reflect the wording of the auditor’s reports in AU-C Section 700, Forming an Opinion and Reporting on Financial Statements. (This recommendation does not apply to Illustration 2). The suggested edit is as follows:

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We also suggest changing the heading in the Illustrative Reports from “Other Matter” to “Report on the Financial Statements” as recommended in our proposed edits to paragraph 68 above.

Proposed revisions to Illustration 5 – Combined Report Expressing an Unmodified Opinion on ICFR and an Unmodified Opinion on the Financial Statements, are detailed separately in the attached Appendix.

Paragraph A152 - Exhibit C — Illustrative Management Report

We recommend modifying the language in the lead-in paragraph of the exhibit to reflect that this example is applicable only when there are no material weaknesses. We suggest revising the language as follows:

The following is an illustrative management report, applicable when no material weaknesses are reported, containing the reporting elements described in paragraph 58 of this proposed SAS:

We recommend including reference to “ABC Company” within the second paragraph of the Illustrative Management Report consistent with the first paragraph as follows:

Management of ABC Company is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of ABC Company’s internal control over financial reporting as of December 31, 20XX, based on [identify criteria]. Based on that assessment, management concluded that, as of December 31, 20XX, ABC Company’s internal control over financial reporting is effective, based on [identify criteria].
We recommend modifying the footnote in order to align with changes proposed elsewhere in the comment letter as follows:

For example, the following may be used to identify the criteria: "criteria established in the 2013 Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

* * *

We would be pleased to discuss our letter with you at your convenience. If you have any further questions, please contact Jennifer Haskell at (203) 761-3394.

Sincerely,

Deloitte & Touche LLP
APPENDIX

Illustration 5 — Combined Report Expressing an Unmodified Opinion on ICFR and an Unmodified Opinion on the Financial Statements

The following is an illustrative combined report expressing an unmodified opinion on ICFR and an unmodified opinion on the financial statements. The circumstances include an audit of a complete set of general purpose financial statements (single year) prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements. We also have audited ABC Company's internal control over financial reporting as of December 31, 20XX, based on [identify criteria].

Management’s Responsibility for the Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying [title of management’s report].

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the entity’s internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

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1 The subtitle “Report on the Financial Statements and Internal Control Over Financial Reporting” is unnecessary in circumstances when the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.

2 For example, the following may be used to identify the criteria: "criteria established in the 2013 Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."
An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor’s judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Definition and Inherent Limitations of Internal Control Over Financial Reporting**

An entity’s internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with applicable financial reporting framework, such as accounting principles generally accepted in the United States of America. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20XX, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also in our opinion, ABC Company maintained, in all material
respects, effective internal control over financial reporting as of December 31, 20XX, based on [identify criteria].

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

[Auditor’s city and state]

[Date of the auditor’s report]