



## Agenda Item 1A

### SUMMARY OF COMMENTS RECEIVED

#### ***Proposed SAS, An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements***

#### **Background**

The proposed Statement on Auditing Standards, (SAS) *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*, was issued for exposure in September 2014, and comments were due by December 15, 2014. This proposed SAS

#### **Summary of Comments Received**

Nineteen comment letters were received, from the following respondents:

- |   |         |
|---|---------|
| 1. Commonwealth of Virginia               | VA      |
| 2. Hunter College                         | Hunter  |
| 3. Florida Institute of CPAs              | FICPA   |
| 4. Michigan Office of the Auditor General | MI      |
| 5. Tennessee State Auditor                | TN      |
| 6. Illinois CPA Society                   | IL SCPA |
| 7. BDO Seidman, LLP                       | BDO     |
| 8. Virginia State Society of CPAs         | VSCPA   |
| 9. McGladrey                              | McG     |
| 10. Ernst & Young                         | EY      |
| 11. Moss Adams                            | Moss    |
| 12. KPMG LLP                              | KPMG    |
| 13. National State Auditors Association   | NSAA    |
| 14. PriceWaterhouse Coopers LLP           | PWC     |
| 15. GAO                                   | GAO     |
| 16. Grant Thornton                        | GT      |

17. PCPS	TIC
18. Abe Akresh	Akresh
19. Deloitte & Touche	DT

In general, comments were supportive.

### **Questions for Respondents**

Respondents were asked to respond, in particular, to the following questions:

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

#### **Question 1**

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?

Six respondents expressed concern that the scope of the proposed SAS may be misunderstood as applicable to all financial statements audits, and that moving AT section 501 into GAAS may elevate expectations that an audit of ICFR would be performed more frequently in a typical financial statement audit, outside of requirements for this level of service by regulatory bodies. To avoid this, respondents suggested clarifying the scope of the standard to state that the standard is only applicable when the auditor is engaged to opine on internal control over financial reporting. Respondents also suggested adding application material stating that this proposed statement does not impose additional responsibilities on the auditor for the purposes of issuing an opinion for financial statements, and that an integrated audit is normally performed as a result of the requirements of certain regulatory bodies.

#### ***Task Force Response:***

Paragraph 1, inserted “and only when” to clarify the applicability of the proposed SAS.

#### **Question 2**

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?

All but one respondent (Akresh) agreed with the approach taken, although one respondent (KPMG) expressed the concern that the references to other AU-C sections included in the Proposed SAS could lead the practitioner to believe that the Proposed SAS is incomplete and suggested

including an additional application paragraph stating that the integrated audit is one audit with two opinions (financial statement opinion and ICFR opinion) and that the other SASs are relevant in the context of an integrated audit.

The respondent who disagreed with the approach the ASB has taken supported integrating the material into other AU-C sections.

***Task Force Response:***

Given the support of the approach taken by all but one respondent, no change to the approach taken is proposed.

**Issue for ASB Consideration:**

1. Does the ASB agree with the Task Force response to comments on Q1 and Q2?

**Question 3**

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

Most respondents were supportive of the approach taken relating to the 2013 COSO framework.

Four respondents (McGladrey, KPMG, DT, GAO) objected to the approach taken and suggested a framework-neutral approach, to be consistent with the approach taken in AU-C 315 and PCAOB AS 5.

One respondent believes repeating requirements of the COSO framework in the proposed SAS may result in the requirements of the standard being more prescriptive than intended, and recommends that the proposed SAS move discussion of the seventeen principles of the 2013 COSO Framework from the proposed standard into an appendix, similar to AU-C 315 Appendix B, *Internal Control Component*.

GAO suggested that moving the COSO specific material (that is, references to the principles) to the application material would make using the Green Book easier. Such an approach would require revisions of paragraph .25-.30 to eliminate references to the 17 principles of the 2013 COSO framework. In lieu of that, GAO suggested specific revisions to enhance the consistency of the specific requirements in paragraphs 25 through 30 with the 2013 COSO framework, as well as the Green Book, and clarify the relationship between the entity's financial reporting objectives and the relevant assertions for significant classes of transactions, account balances, or disclosures.

Conversely, one respondent (Akresh) suggest that more detail be provided regarding the COSO framework.

***Task Force Response:***

The Task Force agreed with those respondents who preferred the proposed standard to be framework neutral and expressed a preference to eliminate all references to the COSO principles, due to concerns about updating the references for changes in COSO, and for those who use other

frameworks. However, since the ASB had included the detail in the exposure draft, and there were respondents who supported that, the references to the principles were moved to application material.

Accordingly, paragraphs 28-30 were deleted, and their content placed in paragraphs A36-A45.

**Issue for ASB Consideration:**

2. Does the ASB agree with placing detailed information about the COSO principles in application material? If not, should the information be moved back to requirements, or removed entirely from the proposed standard?

**Question 4**

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?

All but two respondents answered affirmatively to question 4. Two respondents (GT, ILSCPA) expressed concern about unintended consequences, such as practitioners thinking a change in practice is required, and suggested that the amendment not be included in this project but either in an Omnibus Standard or as part of a broader assessment and analysis of potential revisions to AU-C section 315 that may be necessary based on practice questions that have arisen.

Another respondent (PwC) recommended that the ASB staff undertake a project to evaluate whether there is a distinction between significant class of transactions, account balances, or disclosures and material class of transactions, account balances, or disclosures which is used in AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (e.g., paragraph 18 of AU-C 330), and to recommend that the ASB consider changes to the standards or provide guidance to clarify if deemed necessary.

***Task Force Response:***

As the term is currently used in GAAS but is not defined, the Task Force recommends retaining the status quo by using of the term but eliminating the definition. The Task Force also recommends that the ASB consider a project to evaluate whether there is a distinction between “significant” and “material” class of transactions, account balances, or disclosures, as those terms are used in GAAS.

**Relevant Assertions**

One respondent questioned whether the phrase *significant classes of transactions, account balances, and disclosures, and their relevant assertions* had been used consistently throughout the proposed standard. A review disclosed that the each use of *and disclosures* and *or disclosures* was appropriate in context.

The review also revealed that the phrase was consistently punctuated as *significant classes of transactions, account balances, and disclosures and their relevant assertions* with no comma following “disclosures”. A comma was inserted after *disclosures* to indicate that *their relevant*

*assertions* modifies significant classes of transactions and account balances as well as disclosures.

**Issues for ASB Consideration:**

3. Does the ASB agree with the recommendation to retain the term *significant class of transactions, account balance, or disclosure* but to delete the definition?
4. Does the ASB wish to undertake a project to evaluate whether there is a distinction between “significant” and “material” class of transactions, account balances, or disclosures, as those terms are used in GAAS, and, if necessary, consider changes to the standards or additional guidance to clarify?
5. Does the ASB agree that the phrase “and their relevant assertions” applies to significant classes of transactions and account balances?

**Other Issues**

One respondent (EY) requests that the ASB consider accelerating the effective date of the proposed standard to December 15, 2015. The respondent stated that proposed SAS does not represent a new standard, but rather moves the content from extant AT section 501 into GAAS. Further, changes made to extant AT section 501 in the proposed SAS are primarily designed to adhere as closely as possible to PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (PCAOB AS 5), which has been effective since 2007. Accordingly, the profession needs only a minimal transition period to implement the proposed SAS. The respondent also encourage the ASB to coordinate the effective date of the proposed standard with any necessary revisions to requirements impacted by the proposed standard (e.g., the Federal Deposit Insurance Corporation Improvement Act).

Another respondent (DT) noted that AT section 501 will be withdrawn when the proposed SAS becomes effective, and 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. The respondent recommends that in the interim, the ASB draft an interpretation to AT 101 to address common questions that practitioners may have regarding performing an examination of an entity’s ICFR that is not integrated with an audit of financial statements.

**Issues for ASB Consideration:**

6. Does the ASB agree with the proposed effective of December 15, 2016?
7. Does the ASB believe that interim guidance will be needed when AT 501 is withdrawn and a new attestation standard on examinations of internal control is not yet effective?

### **Other Revisions**

The phrase *management's assertion* was changed throughout the proposed standard to *management's assessment* 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*. In addition, for consistency, *evaluation* was changed to *assessment* in paragraphs 8, 60 and 67 and in the illustrative reports.

Comment boxes have been added to the proposed standard linking changes to the respondent comment in agenda item XB, Analysis of Comments. Note that the paragraph numbers in the proposed standard are consistent with the paragraph numbers in the exposure draft. Paragraph numbers will be updated when the proposed standard is brought to the ASB in July 2015.