

# Statement of Standards for Attestation Engagements No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*

**Issue Date:** October 2008

**Effective Date:** This SSAE is effective for integrated audits for periods ending on or after December 15, 2008. Earlier implementation is permitted.

**Product Number:** 023034

## Executive Summary

The Auditing Standards Board has issued Statement on Standards for Attestation Engagements (SSAE) No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. SSAE No. 15 establishes standards and provides guidance to practitioners performing an examination of a nonissuer's internal control over financial reporting (internal control) in the context of an integrated audit (an audit of an entity's financial statements and an examination of its internal control). SSAE No. 15 supersedes extant AT section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*. SSAE No. 15 converges the standards practitioners use for reporting on a nonissuer's internal control with Public Company Accounting Oversight Board Auditing Standards No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*. Some of the changes introduced by SSAE No. 15 are

- revising the scope of AT section 501 to make it applicable only to examinations of the design and operating effectiveness of an entity's internal control that are integrated with an audit of the entity's financial statements. AT section 501 would no longer be applicable to examinations of
  - the design and operating effectiveness of an entity's internal control if the financial statements are not also being audited
  - only the suitability of the design of an entity's internal control. (Such engagements may be developed and performed under AT section 101, *Attest Engagements*. An interpretation of AT section 101 on reporting on the design of internal control is currently being developed)
- requiring management's written assertion about the effectiveness of the entity's internal control to accompany the practitioner's report
- revising the definitions of the terms *material weakness* and *significant deficiency*.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility<sup>1</sup> that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- revising the list of deficiencies in internal control that are indicators of material weaknesses to consist of
  - identification of fraud, whether or not material, on the part of senior management;
  - restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;
  - identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
  - ineffective oversight of the entity's financial reporting and internal control by those charged with governance.
- eliminating the list of deficiencies that ordinarily would be considered at least significant deficiencies
- expanding the coverage of the following topics:
  - determining the locations or business units at which to perform tests of controls when an entity has multiple locations
  - evaluating the extent to which the practitioner may use the work of others
- introducing the following topics:
  - scaling the examination for smaller less complex entities
  - incorporating the results of the auditor's fraud risk assessment performed in the audit of the entity's financial statements into planning and performing the examination of internal control
  - using a top-down approach to identify the most important controls to test.
  - the effect of an entity's use of a service organization on the practitioner's examination of internal control
  - evaluating the period-end financial reporting process
  - using a benchmarking strategy for entirely automated application controls

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<sup>1</sup> In this SSAE, a reasonable possibility exists when the likelihood of the event is either *reasonably possible* or *probable* as those terms are used in Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*.

- integrating the results of tests of controls performed to express an opinion on the financial statements with the examination of internal control
- identifying significant accounts and disclosures and their relevant assertions.
- determining the likely sources of potential misstatements within a given significant account or disclosure
- presenting factors that affect the procedures a practitioner performs when updating the results of testing from an interim date to the entity's period-end.
- providing a definition of internal control for reports on certain insured depository institutions under Section 112 of the Federal Deposit Insurance Corporation Improvement Act
- providing an illustrative written communication from the practitioner to management and those charged with governance of any significant deficiencies and material weaknesses