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**CENTER FOR AUDIT QUALITY RELEASES REPORT ON LESSONS LEARNED IN PERFORMING AN INTEGRATED AUDIT**

Prepared by representatives of CAQ member firms, this publication is a reference for auditors of public companies that will help them improve the effectiveness and efficiency of their audits. The publication is based on:

- existing professional literature
- information gathered by the CAQ task force members who drafted the document
- the experiences of CAQ member firms

The information benefits audit committee members and serves as a useful resource for members who take an active role in reviewing how company management has designed and documented its internal control over financial reporting (ICFR).

The effective and efficient execution of reporting on ICFR pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (SOX) has been a focus and priority of issuers, auditing firms, investors, the PCAOB and the Securities and Exchange Commission (SEC, or “the Commission”) since SOX was enacted.

Regulatory focus on the improved implementation of Section 404 by both management and auditors culminated with the 2007 issuance of the SEC’s Commission Guidance Regarding Management’s Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (SEC Guidance) and AS 5.

In addition to AS 5 and the SEC’s Guidance, the following were published to aid in Section 404 evaluations and assessments:

- In 2006, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published guidance that applies the concepts of *Internal Control – Integrated Framework* (published in 1992) to smaller companies and demonstrates how these companies may achieve their financial reporting objectives.
- In 2009, COSO also released its *Guidance on Monitoring Internal Control Systems*, which is designed to clarify the monitoring component of internal control.
There is a close relationship between the work performed by management for the purposes of its assessment and that performed by the auditor for the audit of ICFR. However, differences may exist between them regarding processes and documentation.

For example, management’s judgment regarding its evaluation and the level of documented evidence necessary to support its assessment may be based on its daily interaction with its system of internal controls. The auditor, on the other hand, is responsible for conducting an independent audit. An auditor forms an opinion of the control system only after analysis and testing is conducted with the required professional skepticism and documented support for his or her professional opinion, in accordance with professional standards. This may require the auditor to take a different approach to the evaluation of the internal control system and to perform more tests and obtain more-extensive evidence than management needs for its assessment.

Despite differences that may exist in the evaluation processes and in the level of documentation, one of the best opportunities for efficiency in the audit of ICFR arises when the auditor can use the documentation already prepared and testing already performed by management.

In pursuing these efficiencies, however, the auditor should be careful to avoid even the appearance of attempting to limit the flexibility available to management in designing and implementing its process. Both the SEC and the PCAOB have made it clear that the auditor should not be attempting to direct management in the design or implementation of its evaluation process or assessment decision.

Balancing the notions of not interfering with management’s process with trying to achieve the most effective and efficient audit may mean the auditor should use the work of management and others when appropriate, and as permitted by the current professional standards. It also means the auditor should have an open line of communication with management and the audit committee so that they may discuss how changes in either party’s procedures might save overall time, effort or cost without diminishing the effectiveness and control of each process and assessment.

Auditors historically have had such communications with management regarding the documentation and procedures related to the preparation of the company’s financial statements, and these have been expanded to include the audit of internal control over financial reporting.

For more information about the CAQ report Performing an Audit of Internal Control in an Integrated Audit:

- Full report plus full lessons learned: [http://thecaq.org/newsroom/pdfs/404LessonsLearned-PerformingIntegAudit.pdf](http://thecaq.org/newsroom/pdfs/404LessonsLearned-PerformingIntegAudit.pdf)