



Agenda Item 1B

ANALYSIS OF COMMENTS RECEIVED

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

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 LLP	DT

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No.	From	¶ / Topic	Comment	TF Comment
1	McG	Assertion	We also agree that there no longer should be an option to examine and report on management’s assertion about the effectiveness of internal control over financial reporting, and that the auditor should be required to examine and report directly on the effectiveness of internal control over financial reporting.	Supportive
2	KPMG	Assertion	We also agree with the Board’s decision to require the auditor to audit and report directly on the effectiveness of internal control over financial reporting (ICFR) rather than to report on management’s assertion about the effectiveness of ICFR. This change provides consistency between an integrated audit performed under AICPA and Public Company Accounting Oversight Board (PCAOB) standards that will benefit the profession and users of the report.	Supportive
3	Moss	Assertion	We agree with the removal of the option to report on management’s assertion about the effectiveness of ICFR. In our view this simplifies the reporting process and improves consistency in the reports on audits of ICFR that are integrated with audits of financial statements.	Supportive
4	McG	Clarity	We concur with the ASB’s objective of adhering as closely as possible to extant AT section 501 and Public Company Accounting Oversight Board Auditing Standard No. 5, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i> , while aligning with GAAS and avoiding unintended consequences in practice.	Supportive
5	EY	General	We support the issuance of the proposed SAS. We agree with the ASB’s proposal to move the content of AT section 501, <i>An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With An Audit Of Its Financial Statements</i> (AT 501), from the attestation standards into generally accepted auditing standards (GAAS). Further, we support the development of an attestation standard addressing examinations of internal control that aren’t integrated with audits of financial statements.	Supportive
6	GAO	General	We support ASB’s efforts to apply clarity drafting conventions to extant Attestation Standards (AT) section 501, <i>An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> .	Supportive

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			<p>Because examinations performed under extant AT section 501 are required to be integrated with audits of financial statements, we also support ASB’s decision to move the content of extant AT section 501 from the attestation standards into the auditing standards. We also encourage ASB to develop an attestation standard addressing examinations of internal control other than examinations of internal control over financial reporting that are integrated with audits of financial statements. We believe that developing such an attestation standard would be helpful to address examinations of internal control over operations, compliance, and other reporting, such as privacy or information security, as well as examinations of internal control over financial reporting that are not integrated with audits of financial statements (e.g., examinations of specific areas of internal control over financial reporting, such as monitoring controls, or examinations that do not satisfy the preconditions for an audit of internal control over financial reporting because the as of date specified in management’s assertion about internal control over financial reporting does not correspond to the balance sheet date).</p>	
7	BDO	General	<p>As set out below, we support the ASB’s decision to move the content of extant AT section 501, <i>An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> (AT 501), into generally accepted auditing standards (GAAS), as we believe this placement emphasizes the interrelated nature of the audit of internal control over financial reporting (ICFR) with the financial statement audit such that the auditor plans and performs the work to achieve the objectives of both audits simultaneously. Furthermore, we believe this change has the potential to have a positive impact on audit quality because it not only reinforces the integrated nature of the performance of an ICFR audit with the financial statement audit but it also aligns, where appropriate, with PCAOB Auditing Standard No. 5, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i> (AS 5), and, as a result, reduces complexity for practitioners that perform audits for both issuers and non-issuers.</p>	Supportive
8	TIC	General	<p>TIC supports repositioning the extant standard on integrated audits (AT 501) from the attestation standards to the auditing standards. TIC believes the change is logical and would be consistent with the positioning of PCAOB Auditing Standard (AS) No. 5, <i>An</i></p>	Supportive

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			<i>Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements.</i> TIC is also supportive of the Board's future plans to explore the development of an attestation standard that would address examinations of internal control, other than internal control over financial reporting (ICFR).	
9	DT	General	We support the issuance of this proposed SAS as we believe that it is appropriate to incorporate the content of extant AT section 501, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> , 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, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i> (AS 5).	Supportive
10	VA	General	In general, we agree with the Board's proposal to move the content of AT section 501 from the attestation standards into generally accepted auditing standards (GAAS).	Supportive
11	Hunter	Q1	We are not aware of any consequences that would result from this move. Overall we agree with moving the content because we feel it would streamline the auditing process and make it more efficient.	Supportive
12	FICPA	Q1	The Committee generally does not foresee any unintended consequences that could result from moving the content of the extant AT section 501 from the attestation standards into GAAS. As the proposed SAS presumes management uses the 2013 COSO framework, Committee members think the auditors will need to verify that management has indeed implemented the updated internal control framework version.	Supportive
13	McG	Q1	We believe it is appropriate to move the content of extant AT section 501 from the attestation standards into generally accepted auditing standards (GAAS).	Supportive
14	KPMG	Q1	We support the Board's decision to move the requirements and application for these engagements to the auditing standards (GAAS).	Supportive
15	EY	Q1	No, we are not aware of any unintended consequences.	Supportive

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16	ILSCPA	Q1	The Committee is aware of one unintended consequence from the proposed treatment which is discussed under number 4 below.	See below
17	PwC	Q1	We support moving the content of extant AT 501, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> , into generally accepted auditing standards (GAAS) and we are not aware of any unintended consequences that would result from moving it.	Supportive
18	BDO	Q1	We are not aware of any unintended consequences and support the ASB's decision to move the content of extant AT 501 into GAAS. We note that when drafting the proposed SAS, the ASB intended to adhere as closely as possible to extant AT 501 and, where appropriate, PCAOB AS 5, while also aligning with GAAS. We believe that such an approach is appropriate and, as noted above, will be helpful to practitioners that perform audits under both AICPA and PCAOB auditing standards.	Supportive
19	TIC	Q1	Yes, TIC believes an unintended consequence that could result from moving the content of extant AT section 501 into the SASs is the potential for inconsistencies between the ED and the clarified risk assessment standards. TIC found one such example in the guidance on walkthroughs. (See specific comments on par. A54) The Other Comments section below presents other examples of potential inconsistencies between the ED and the clarified risk assessment standards.	See specific comments on par. A54
20	Akresh	Q1	I support moving the content on integrated audits to the auditing standards. This will help achieve integration of these audits. (I support moving all the attestation standards to the auditing standards because the only difference between an audit and an attestation is the subject matter, not the basic principles of auditing). I am not aware of unintended consequences of this move.	Supportive
21	DT	Q1	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.	Supportive

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22	GAO	Q1	As is noted above, we support ASB’s decision to move the content of extant AT section 501 from the attestation standards into the auditing standards. Because examinations performed under extant AT section 501 are required to be integrated with audits of financial statements performed in accordance with generally accepted auditing standards, we believe this move will better facilitate the integration of audits of financial statements and internal control over financial reporting and encourage consistency of practice. We are not aware of any unintended consequences that would result from this move.	Supportive
23	Moss	Q1	We agree with the ASB’s conclusion that moving the content of extant AT Section 501 from the attestation standards into generally accepted auditing standards (GAAS) is appropriate. We are not aware of any significant unintended consequences that would result from moving the content from extant AT Section 501 from the attestation standards into GAAS.	Supportive
24	NSAA	Q1	<p>Although paragraph 1 of the proposed SAS states that it applies when an auditor is engaged to perform an audit of internal control over financial reporting (ICFR) that is integrated with an audit of financial statements (integrated audit), we are concerned that auditors may believe this proposed SAS is applicable to all financial statement audits. In addition, we believe that moving AT section 501 into GAAS may eventually produce an expectation for auditors to issue an opinion on internal control over financial reporting.</p> <p>To avoid this misunderstanding/expectation, we suggest clarifying the scope of the standard.</p> <p>Specifically, we believe the Board should more clearly explain that this standard is only applicable when an auditor is engaged to provide an opinion in ICFR in an integrated audit. We also suggest the Board add an application paragraph that states that this proposed statement does not impose additional responsibilities on the auditor beyond those prescribed in other sections of GAAS for the purposes of issuing an opinion for financial statements unless or until an auditor is engaged to perform an audit of ICFR in an integrated audit.</p>	See Summary, Q1

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25	VSCPA	Q1	The VSCPA discussed the impact of the ED, including potential unintended consequences. The VSCPA believes clearly stating that an audit of internal control over financial reporting is NOT a standard requirement of an audit of financial statements under Generally Accepted Auditing Standards (GAAS) would add clarity. While this may be a small clarification, it will provide a significant benefit for any parties that may misinterpret the proposed guidance.	See Summary, Q1
26	TN	Q1	We generally agree with the proposal; however, we are concerned that auditors will misinterpret that this standard applies to all financial statement audits. We suggest explicitly indicating that this requirement does not apply unless the auditor was engaged to opine on internal control over financial reporting. Referring in the scope (¶1) to “performing an audit” is too broad and could be incorrectly interpreted that testing controls and opining are required.	See Summary, Q1
27	Moss	Q1	While we support moving the content of extant AT Section 501 into GAAS, especially as a standalone SAS in AU-C Section 940 where it is differentiated as a type of service for which there are “special considerations”, we have a slight concern there will be elevated 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. We do not advocate limiting the applicability of the Proposed SAS to only those situations involving a regulatory body’s requirements for an audit of ICFR. However, we suggest the ASB clarify the scope and applicability of the Proposed SAS. For example, the Introduction section and the related application and other explanatory material could more explicitly state that the requirements in the Proposed SAS are <i>only</i> applicable when an auditor is engaged to perform an audit of ICFR <i>in addition to</i> the audit of financial statements, and that this is normally encountered as a result of the requirements of certain regulatory bodies.	See Summary, Q1
28	VA	Q1	We believe that moving AT section 501 into GAAS may eventually produce an expectation for auditors to issue an opinion on Internal Controls over Financial Reporting. To avoid that expectation from developing, we suggest clarifying the scope of the standard. Specifically, we believe the Board should more explicitly explain that this standard is only applicable when an auditor is engaged to provide an opinion for an integrated audit of internal control over financial reporting and does not impose additional responsibilities on the auditor beyond those prescribed in other sections of GAAS for the purposes of issuing an opinion form financial statements.	See Summary, Q1

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29	MI	Q1	Our primary concern is to avoid any confusion between extant AT section 501 and AU-C section 265 within generally accepted auditing standards (GAAS). We note that AU-C 265.04 informs the auditor that AU-C section 265 does not apply if the auditor is engaged to report on the effectiveness of an entity's internal control under AT section 501. We would consider it beneficial if you incorporate a similar disclosure in extant AT section 501 that that section does not apply if the auditor is not engaged or required to report on the effectiveness of an entity's internal control.	See Summary, Q1
30	GT	Q1, Q2	We agree with the approach taken by the Board to propose a separate standalone SAS for this topic and do not foresee any unintended consequences that would result from moving extant AT section 501 into auditing standards generally accepted in the United States of America (GAAS).	Supportive
31	Hunter	Q2	We agree with the approach the ASB took to make a standalone SAS. It makes the standard easier to search; the auditor does not need to refer to multiple sections when looking at the standard.	Supportive
32	FICPA	Q2	The Committee agrees with the ASB's approach to propose a separate standalone SAS instead of addressing an integrated audit in each relevant existing AU-C section. This separation keeps GAAS simpler as this specific type of ICFR audit integrated with an audit of financial statements has an application limited to certain industries whose regulatory bodies require an integrated audit.	Supportive
33	TN	Q2	We strongly agree with this approach.	Supportive
34	ILSCPA	Q2	The Committee agrees with the approach the ASB has taken with proposing a standalone SAS for the subject matter.	Supportive
35	VSCPA	Q2	The VSCPA agrees that issuing guidance within the audit standards is an improvement versus issuing guidance under the attestation standards. One common source for guidance on <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i> will provide ease of access for those who will provide such services and avoid confusion for the many that will not be involved in such audits.	Supportive
36	McG	Q2	Also, we 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. Although the approach taken results in a few paragraphs from existing AU-C sections	Supportive

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			being repeated within this proposed standard, we believe a standalone SAS is more easily used by auditors and that this approach more clearly states the procedures required for an audit of internal control over financial reporting that is integrated with an audit of financial statements.	
37	EY	Q2	Yes, we agree with the approach the ASB has taken.	Supportive
38	NSAA	Q2	We strongly agree with keeping this subject matter as a standalone SAS/AU-C section. First and foremost, many financial statement audits are not integrated audits. There is no reason to complicate the standards for these engagements. Even for those performing integrated audits, it might be confusing distinguishing between financial statement and ICFR audit requirements. Although the audits are integrated and some of the audit procedures overlap, each audit still has to be completed in and of itself. Second, it follows the precedent of AU-C 935, <i>Compliance Audits</i> , in providing and explaining the requirements of an additional engagement that accompanies the financial statement audit. Finally, the approach in this proposed statement and AU-C 935 makes sense for explaining how all other AU-C sections fit in, what the additional requirements are, and how an auditor should modify and adapt certain requirements for the specific audit.	Supportive
39	PwC	Q2	We also support the Auditing Standards Board's (ASB) approach in drafting a separate standalone SAS instead of addressing an integrated audit in each relevant existing AU-C section.	Supportive
40	GAO	Q2	We agree with the approach ASB has taken in proposing a separate, standalone SAS for audits of internal control over financial reporting that are integrated with audits of financial statements. We also agree with ASB's proposed amendments to various sections in SAS No. 122, <i>Statements on Auditing Standards: Clarification and Recodification</i> , for the purpose of integrating the proposed SAS into the auditing standards.	Supportive

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41	Moss	Q2	We also agree with the ASB’s proposal of a separate, standalone SAS instead of addressing an integrated audit in each relevant existing AU-C section. This helps maintain the perception of the unique nature of an integrated audit, driven primarily by the requirements of certain regulatory bodies, which is expected to occur relatively infrequently. The separation also retains the focus of those AU-C sections primarily applicable to audits of financial statements, the vast majority of which are not integrated audits, and does not diminish their understandability and ease of applicability.	Supportive
42	BDO	Q2	We agree with the approach taken by the ASB in proposing a separate standalone SAS.	Supportive
43	TIC	Q2	Yes, TIC agrees with the approach of having a separate standalone SAS because the majority of audits performed under GAAS are not integrated audits. The new SAS will provide a self-contained resource for the incremental guidance on integrated audits without cluttering up other SASs with guidance that may be irrelevant to the majority of auditors.	Supportive
44	DT	Q2	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.	Supportive
45	VA	Q2	We agree with the ASB approach of proposing a separate standalone SAS. The standalone SAS offers a central location to assist users in identifying requirements specific to an opinion on internal controls over financial reporting. We believe segregating the new GAAS requirements proposed in the exposure draft is ideal because audit opinions over internal controls are infrequent and may be issued by firms other than those issuing corresponding opinions on financial statements.	Supportive
46	MI	Q2	We strongly agree with the approach to establish a standalone SAS and AU-C section on this topic. Since many financial audits are not integrated audits, a separate AU-C section	Supportive

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			is appropriate given the differing responsibilities the auditor has in integrated audits and those that are not.	
47	KPMG	Q2	We support the Board's decision to develop a stand-alone SAS instead of addressing the ICFR requirements in each relevant existing AU-C Section. This approach is consistent with both extant AT Section 501 and the PCAOB's Auditing Standard (AS) No. 5, <i>An Audit of Internal Control Over Financial Reporting that is Integrated with An Audit of Financial Statements</i> . However, we believe 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. Therefore, we suggest including an additional application paragraph in the <i>Introduction</i> section of the Proposed SAS that cautions the practitioner 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.	Paragraph 2 states this concept.
48	Akresh	Q2	<p>I strongly disagree with the approach of a separate standalone SAS rather than integrating the material into other AU-C sections. Integrating the material into each relevant AU-C section has these advantages:</p> <ul style="list-style-type: none"> - Conveys the message that an integrated audit is needed (a separate SAS focusing on internal control conveys the message that the internal control audit is a separate audit). ○ Highlights what additional steps are necessary beyond those in a financial statement audit. With a standalone SAS, the only way the auditor gains this understanding is by comparing the separate SAS with individual AU-C sections. Even if a separate SAS is issued, that SAS should indicate clearly the additional steps required in an integrated audit are not required in a financial statement audit. These additional steps are required testing of operating effectiveness of controls, evaluation of sufficiency of evidence on controls, additional wording of engagement letter and representation letter, and issuance of an integrated report. Integrating the material should include an example engagement letter and an example representation letter for an integrated audit. ○ Keeps the standards shorter by removing duplicate material (discussion of internal control, deciding what is a material weakness, and definitions). One of the clarity goals was to shorten the standards. 	Not changed other than addition to paragraph 1.

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			<ul style="list-style-type: none"> ○ Avoids the need to keep other AU-C sections consistent with the standalone SAS and vice versa. For example, the proposed SAS has material that applies also to a financial statement audit and therefore belongs in AU-C 265 (definition of deficiency), AU-C 315 (definitions, principles from COSO 2013 material, top-down approach), and other sections. 	
49	Hunter	Q3	We agree with the approach relating to the 2013 COSO framework particularly because the new framework retains the core definition of internal control and the five components of internal control, and it continues to emphasize the importance of management judgment in designing, implementing, and conducting a system of internal control, and in assessing its effectiveness. It broadens the application of internal control in addressing operations and reporting objectives.	Supportive
50	FICPA	Q3	The Committee agrees with the ASB's adoption of the 2013 COSO framework for various reasons. The 2013 new framework is updated for the more sophisticated, decentralized and mobile technology environments existing today. Current technology involves multiple, real-time activities cutting across numerous systems, global organizations and processes. The current business environment and organization structures have changed so tremendously in complexity since the issuance of the original framework in 1992 that it makes sense for the framework to be updated and for the ASB to follow suit by adopting it. The Committee also appreciates the ASB's flexibility which allows for a different regulatory framework when necessary (the GAO's Green Book, for instance).	Supportive
51	TN	Q3	We agree with the approach and with also including the GAO Green Book reference.	Supportive
52	ILSCPA	Q3	The Committee agrees with ASB using the 2013 COSO framework as the barometer for determining the effectiveness of internal control over financial reporting.	Supportive
53	VSCPA	Q3	The VSCPA agrees that utilizing the 2013 COSO framework is the most effective approach. It is widely known and used by varying entities. The draft standard also provides guidance and flexibility for auditors when entities have implemented other frameworks.	Supportive
54	EY	Q3	Yes, we agree with the approach the ASB has adopted related to the 2013 COSO framework. Specifically, we agree with the underlying presumption in the proposed SAS that management will use the 2013 COSO framework (including the requirement to	Supportive

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			evaluate the five components of internal control by assessing the principles in the 2013 COSO framework). We also support the flexibility of the proposal to allow auditors to adapt and apply the standard when management uses another internal control framework, such as the U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (the Green Book).	
55	NSAA	Q3	We agree with the inclusion of the specific requirements for evaluating the five components of the 2013 COSO framework, and appreciate that the proposed statement also allows auditors to adapt and apply the standard when management uses other internal control frameworks such as the Green Book.	Supportive
56	PwC	Q3	We agree with the approach the ASB has adopted relating to the presumption that management uses the 2013 <i>Internal Control- Integrated Framework</i> issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework) to evaluate the five components of internal control by assessing the principles in the 2013 framework, while continuing to allow the auditor to adapt and apply the proposed SAS when management applies a different internal control framework such as the U.S. Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> (the Green Book).	Supportive
57	Moss	Q3	We agree with the ASB's approach relating to the 2013 COSO framework. Similar to the extant AT Section 501, we believe it is appropriate for the application material to indicate that the 2013 COSO framework and the GAO's Green Book provide suitable and available criteria for this subject matter, while allowing another framework to be followed if certain conditions are met.	Supportive
58	GAO	Q3	The proposed SAS presumes the use of the 2013 COSO framework by management and includes specific requirements for the auditor to evaluate each of the five components of internal control. The 2013 COSO framework introduced the concept of principles related to the five components of internal control. These principles support the effective design, implementation, and operation of the related components and represent the requirements necessary to establish an effective internal control system. Because the	NA – Supportive See comments on par. 25-30 below.

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			<p>proposed SAS presumes the use of the 2013 COSO framework, it also includes specific requirements for determining whether the relevant principles related to each of the five components of internal control exist in the design, implementation, and operation of internal control over financial reporting to achieve the entity's financial reporting objectives.</p> <p>We appreciate the attention ASB has given to governmental entities in the proposed SAS by requiring the auditor to adapt and apply such specific requirements based on the framework used by management. Specifically, the proposed SAS identifies both the 2013 COSO framework and GAO's <i>Standards for Internal Control in the Federal Government</i> (the Green Book) as suitable and available criteria against which management may evaluate and report on the effectiveness of the entity's internal control over financial reporting. While we agree with the approach ASB has adopted relating to the 2013 COSO framework, we recommend that paragraphs 25 through 30 be revised as illustrated in enclosure I. Given that the proposed SAS presumes the use of the 2013 COSO framework by management, such suggested revisions are intended 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.</p>	
59	BDO	Q3, 51	We support the approach taken by the ASB relating to the 2013 COSO framework, in that the proposed SAS presumes management uses the 2013 <i>Internal Control – Integrated Framework</i> .	Supportive
60	GT	Q3	We are also supportive of the approach taken by the Board with respect to the 2013 COSO framework and believe the proposed SAS provides sufficient guidance for circumstances where the entity uses a framework other than COSO 2013.	Supportive
61	TIC	Q3	Yes. TIC agrees that the same general approach is also appropriate for AU-C 315 and AU-C 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> . That is, each standard should presume that management has used the 2013 COSO framework but should also allow for the use of other suitable frameworks if they meet the requisite criteria.	Supportive

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62	VA	Q3	We agree with the approach the ASB has adopted relating to the 2013 COSO framework.	Supportive
63	MI	Q3	We have no objections to using the 2013 COSO framework as the basis for evaluating internal control components. We are well aware and have experience using these terms as part of the statewide single audit. Also, State of Michigan statute requires its principal departments to conduct biennial self-assessments of internal control. COSO is the framework used to conduct that assessment. Management and staff throughout State government are familiar with the term COSO and its purposes.	Supportive
64	McG	Q3	<p>In drafting this proposed SAS, the ASB has taken an approach whereby it is presumed that management uses the 2013 <i>Internal Control – Integrated Framework</i> issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and whereby the SAS also allows the auditor to adapt and apply the standard when management uses other internal control frameworks. We note that this approach is inconsistent with the approach taken in AU-C 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, which is neutral as to the framework used by management.</p> <p>We believe that repeating requirements of the COSO framework in the proposed SAS is akin to repeating requirements of generally accepted accounting principles in the auditing standards. Rather than repeating selected information from the accounting standards, the auditing standards instead refer to the applicable financial reporting framework without further elaboration. We recommend that the proposed SAS similarly remain framework neutral and remove discussion of the seventeen principles of the 2013 COSO Framework from the proposed standard.</p> <p>Because the proposed SAS presumes management uses the 2013 COSO Framework, the requirements of the standard may be more prescriptive than intended. The Board might consider including the content related to the 17 COSO principles in an appendix to the proposed SAS, similar to the way in which AU-C 315 Appendix B, <i>Internal Control Components</i>, further explains the components of internal control. This approach would make the proposed SAS more adaptable to any framework used by management and would not require the SAS to be revised each time an update to the COSO Framework is issued.</p>	See Summary, Q3

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65	KPMG	Q3	<p>The "Preconditions for the Audit of ICFR" section of the Proposed SAS requires the auditor evaluate the effectiveness of ICFR using the same criteria used by management for its evaluation, and such criteria must be suitable and available (paragraphs .06 and .08). Further, paragraph .A14 stipulates that the COSO 2013 Framework and the U.S. Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> (the Green Book) provide suitable and available criteria and permit the auditor to evaluate another framework, if selected, following the requirements of paragraph .06 to remain "framework neutral". However, beginning at paragraph .25, the Proposed SAS appears to shift from "framework neutral" to "framework specific" with regard to COSO 2013. We believe that the Proposed SAS should maintain a "framework neutral" approach similar to PCAOB AS No. 5.</p>	See Summary, Q3
66	Akresh	Q3	<p>I agree that the standard should refer to 2013 COSO framework (COSO 2013) as the framework normally used. I also like the reference to the GAO Green Book. However, there is not enough information about COSO 2013. COSO says that there are 17 principles of internal control that should be met to have effective internal control. Although the principles are under the "Evaluating the internal control components section", they need to be labeled as such. (Although the proposed SAS talks about relevant principles, all 17 principles are relevant so the term relevant is not needed). If the SAS stays standalone, AU-C 315 should be modified to incorporate the 17 principles. In addition, the relationship between the principles and material weakness needs to be made clear. COSO says that if a principle is not met or the components are not integrated, internal control is not effective. This means there is a material weakness and the opinion should be adverse. This needs to be clearly stated in the SAS and in the discussion of material weaknesses in AU-C 265. An easier to understand definition of material weakness would be, "a situation where one or more of the 17 COSO principles is not met." This alternative definition should be in the application material. Further, a listing of the 17 principles should be included as part of management's assertion and as part of the representation letter. Management should assert that the entity meets each of the 17 principles in COSO. The auditor's responsibility section of the auditor's report should indicate that the auditor tested whether each of the 17</p>	See Summary, Q3

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			<p>principles were met. The definitions section of the auditor’s report needs to indicate that effective internal control means that each of the 17 principles is met and no material weaknesses were found. Also, the definition section of the auditor’s report needs a definition of material weakness, since the term is used in the auditor’s responsibility section of the report without definition. If the auditor finds material weakness, the report and communication to those charged with governance should indicate the principles that were not met.</p> <p>The report and management’s assertion should not assume that the reader knows what’s in COSO 2013. A better description of COSO 2013 in the report and in management’s assertion will help reduce the expectation gap.</p>	
67	DT	Q3	<p>While we acknowledge that the <i>Internal Control — Integrated Framework (2013)</i>, 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 “<i>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.</i>”¹</p> <p>1 Securities and Exchange Commission Final Rule: Management’s Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports [Release No. 33-8328].</p> <p>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 <i>Standards for Internal Control in the Federal Government</i> (the Green Book), which has been revised and is effective beginning fiscal year 2016.</p> <p>Further, we believe that consistent with our recommendation regarding the deletion of any language presuming, or requiring, that management use either the 2013 COSO</p>	See Summary, Q3

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			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 these recommendations.	
68	Hunter	Q4	Yes this change helps appropriately align the terminology with minimal impact on practice. This term helps create more consistency between the risk assessment process and procedures that supports the financial statement audit and those that support the internal control audit.	Supportive
69	FICPA	Q4	The Committee members believe the defined term <i>significant class of transactions, account balance, or disclosure</i> does have the effect of better aligning terminology with minimal impact on practice because it makes it consistent with the current language used in the majority of the codified SAS.	Supportive
70	TN	Q4	We agree that the term does better align.	Supportive
71	VSCPA	Q4	The VSCPA agrees that the defined term <i>significant class of transactions, account balance, or disclosure</i> will improve alignment of terminology with other existing GAAS.	Supportive
72	EY	Q4	<p>Yes, we believe the defined term <i>significant class of transactions, account balance, or disclosure</i> has the effect of better aligning terminology with minimal impact on practice. Specifically, we agree with:</p> <ul style="list-style-type: none"> ▶ Changing the term <i>significant account or disclosure</i> used in AT Section 501 to <i>significant class of transactions, account balance, or disclosure</i> to align with terminology used in extant GAAS and to clarify that the risk factors the auditor is required to evaluate in the identification of significant classes of transactions, account balances, and disclosures and their relevant assertions are the same in the audit of internal control over financial reporting as in the audit of the financial statements ▶ Amending AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, to include the definition of <i>significant class of transactions, account balance, or disclosure</i> 	Supportive

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73	NSAA	Q4	We agree the defined term <i>significant class of transactions, account balance, or disclosure</i> will have the effect of better aligning terminology with minimal impact on practice.	Supportive
74	PwC	Q4	We support changing the term "significant account or disclosure" used in extant AT 501 to "significant class of transactions, account balance, or disclosure" to align with terminology used in extant GAAS and clarify that the risk factors the auditor is required to evaluate in the identification of significant classes of transactions, account balances, and disclosures and their relevant assertions are the same in the audit of internal control over financial reporting as in the audit of the financial statements. Accordingly, we agree with including the definition of "significant class of transactions, account balance, or disclosure" in the proposed amendments to AU-C 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AU-C 315)</i> .	Supportive
75	GAO	Q4	We believe that the consistent use of "significant class of transactions, account balance, or disclosure" throughout the auditing standards and in lieu of "significant account or disclosure," as currently used in extant AT section 501, will have the effect of better aligning terminology with minimal impact on practice.	Supportive
76	Moss	Q4	Finally, we believe the defined term <i>significant class of transactions, account balance, or disclosure</i> has the effect of better aligning terminology and will have minimal impact on practice because this term is consistent with the language in the extant AU-C sections for a financial statement audit.	Supportive
77	BDO	Q4	We agree that the phrase <i>significant class of transactions, account balance, or disclosure</i> better aligns terminology and we do not believe there will be any significant impact on practice.	Supportive
78	TIC	Q4	Yes, the definition should have minimal impact on current practice.	Supportive

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79	Akresh	Q4	Yes.	Supportive
80	DT	Q4	We agree that the defined term has the effect of better aligning terminology with that used elsewhere in GAAS.	Supportive
81	VA	Q4	We agree the defined term <i>significant class of transactions, account balance, or disclosure</i> will have the effect of better aligning terminology with minimal impact on practice.	Supportive
82	MI	Q4	Yes, we agree with the use of these terms to be consistent within GAAS.	Supportive
83	GT	Q4	<p>The Board requested specific comments as to whether the newly defined term “significant class of transactions, account balance, or disclosure” would have the effect of better aligning terminology with minimal impact on practice. Because the Board has proposed to move the content of extant AT section 501 from the attestation standards into GAAS, we understand and support the need to align the terminology between financial statement audits and audits of internal control over financial reporting, even if such terminology is not used in International Standards on Auditing (ISA). However, we are concerned with respect to the proposed amendments to align with the terminology in AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, including the newly defined term “significant class of transactions, account balance, or disclosure.” We believe that such changes may provide mixed signals to practitioners and may result in firms needing to revisit their current methodologies and related use of terms.</p> <p>Based on our participation in the Board’s discussions, we understand that the intent of the change is to conform terminology and that the newly defined term is not intended to change current practice. Extant AT section 501 defines the term “significant account or disclosure” as an account balance or disclosure that has a reasonable possibility that it could contain a misstatement that, individually or when aggregated with others, has a material effect on the financial statements, considering the risks of both overstatement and understatement. The determination of whether an account balance or disclosure is a significant account balance or disclosure is made without regard to the effect of controls. This definition is similar to the definition included in the standards of the Public Company Accounting Oversight Board (PCAOB) for both financial statement audits and audits of internal control over financial reporting. Consistent with PCAOB standards,</p>	See Summary, Q4

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			<p>extant AT section 501 also includes requirements related to identifying significant accounts and disclosures and their relevant assertions. Such definition and requirements do not currently exist for financial statement audits conducted in accordance with GAAS or with ISA, with which GAAS has been converged and harmonized.</p> <p>Because the auditor’s risk assessment procedures in AU-C section 315 support both the financial statement audit and the audit of internal control over financial reporting, as described in paragraph A21 of the proposed SAS, we believe it is appropriate to consider such amendments, but strongly recommend that such consideration be performed 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. We note that the International Auditing and Assurance Standards Board (IAASB) has included an agenda item for a post-implementation review of the standards related to the auditor’s risk assessment. It would seem prudent to coordinate any changes to GAAS with potential revisions that the IAASB may propose as part of their project. We note this would also provide the Board with opportunity to further consider matters being discussed at the Audit Issues Task Force.</p> <p>We would therefore not be supportive of any conforming changes to terminology within other standards as proposed in the exposure draft at this time until a more complete vetting of potential revisions is complete.</p>	
84	ILSCPA	Q4	<p>The committee is concerned that amendments are being made to the language of AU-C Section 315 that will apply to <i>all</i> audit engagements, rather than the limited number of engagements covered in the scope of the proposal. Because the scope of the proposed standard is so limited, we believe many, if not most, practitioners will not feel the need to read the standard or the proposed amendments to AU-C 315 and will, consequently, not be aware of these changes.</p> <p>Specifically, the proposed definition of <i>significant class of transactions, account balance or disclosure</i> is not currently contained in AU-C Section 315. We believe this definition and, in particular, the language requiring the auditor to address the risks of overstatement and understatement may result in unanticipated changes to auditing requirements. We believe any such changes in terminology should be made in a future Omnibus standard, rather in one with such a limited scope of applicability.</p>	See Summary, Q4

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85	PwC	Q4	<p>However, with the inclusion of the definition we encourage the AICPA staff to 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, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> (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.</p>	See Summary, Q4
86	Akresh	One audit	<p>Although the exposure draft wants one integrated audit, the report and the SAS talk about two audits. The SAS and the report should refer to an integrated audit with 2 objectives: an opinion on financial statements and an opinion on controls. Referring to one integrated audit will give the message to auditors, clients, and users that two audits are not necessary.</p> <p>This affects several aspects of the SAS:</p> <p>Title The title of the SAS should be changed to "An integrated audit of financial statements and internal control over financial reporting".</p> <p>Auditor's report The proposed SAS lets the auditor choose between separate reports on internal control and the financial statement and a combined report. I believe only the combined report should be permitted. The combined report sends the message to users and auditors that an integrated audit was performed. Separate reports signify separate audits. In addition, two ways of reporting in the same situation might be confusing to readers. For the same reason, the report should use the phrase "integrated audit". For example: The title of the report should be "Independent Auditor's Report on Integrated Audit" The introduction should say "We performed an integrated audit of: a. Entity's financial statements, which comprise ... b. Entity's internal control over financial reporting as of"</p> <p>The discussion in the first paragraph under Auditor's responsibility should use the phrase "integrated audit" (singular), not audits (plural). The second and third paragraph should be combined to discuss one audit, not two audits.</p> <p>The opinion heading should be singular and "also" language should not be used. The "also" wording implies a less important opinion as well as a separate audit. For example:</p>	This would create unnecessary differences with PCAOB AS 5.

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			<p>"In our opinion: a. Entity's financial statements are presented fairly... b. Entity maintained internal control that was effective in all material respects ... (the "in all material respects" needs to modify effective, not maintained)." Illustrative written communication to those charged with governance I am happy that this example uses the term "integrated audit". However, the first paragraph still refers to two audits. This can be fixed by deleting "our audit of "in the second line.</p>	
87	KPMG	A1	<p>Paragraph .A1 stipulates that there is no prohibition against different auditors performing each portion (financial statement and ICFR) of the integrated audit. We believe that as drafted, there are insufficient safeguards to audit quality that might result from the inherent difficulties that arise when there are different auditors. We encourage the Board to reconsider whether to require that the ICFR audit be performed in accordance with AT Section 101 as a separate examination engagement when there are different auditors (i.e., it is not integrated if different auditors). Alternatively, the Proposed SAS should include specific requirements (e.g., communication requirements) between auditors of the integrated audit. For example,</p> <ul style="list-style-type: none"> • the auditor performing the financial statement portion of the integrated audit should be required to communicate certain matters, such as the findings of the substantive procedures and any additional test of controls performed, as described in paragraphs .55-.56 that should be considered in the ICFR portion of the integrated audit. • the auditor performing the ICFR portion of the integrated audit should be required to communicate certain matters, such as the results of the test of controls which may impact the risk assessment related to the financial statements, as described in paragraph .13. • the Board should add requirements regarding the separate communication requirements to those charged with governance of ICFR matters related to each portion of the integrated audit. 	Revised last sentence of A1.
88	GAO	A4	Suggested edits to enhance consistency with AU-C 210, paragraph 6. Similar edits suggested for the definition of internal control over financial reporting below.	AU-C 210 addresses

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			A4. Effective ICFR provides an entity with reasonable assurance regarding the reliability of financial reporting and the preparation <i>and fair presentation</i>	management's responsibility for the financial statements; this point is broader. No change.
89	NSAA	5	Paragraph 5 – We noted the definition of "Deficiency in internal control" written in paragraph 5 is identical to the definition provided in AU-C 265; however, the other definitions provided have meanings not specifically addressed in other sections of GAAS. We believe inclusion of the definition of "Deficiency in internal control" is inconsistent with the board's intent to include only definitions which are new to GAAS.	Change made.
90	GT	5	We note that the definition of "deficiency in internal control" is identical to the definition provided for the same phrase in AU-C section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i> . We believe it is the Board's intention to only include definitions in the proposed SAS that are not already defined in US GAAS; therefore, we recommend removing the definition from this proposed SAS.	Change made
91	VA	5	We noted the definition of "Deficiency in internal control" written in paragraph 5 is identical to the definition provided in AU-C 265; however, the other definitions provided have meanings not specifically addressed in other sections of GAAS. We believe inclusion of the definition of "Deficiency in internal control" is inconsistent with the Board's intent to include only definitions which are new to GAAS.	Change made
92	PwC	5	The proposed SAS does not include the definitions of material weakness and significant deficiency that are in extant AT 501 because these terms are already defined in AU-C 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (AU-C 265). To be consistent, we also recommend deleting the definition of "deficiency in internal control" from the proposed SAS since it also appears in AU-C 265.	Change made
93	KPMG	5	Further, since AU-C Section 265 does not apply to an integrated audit, the <i>Definitions</i> (paragraph .05) section of the Proposed SAS should also include the definition of a material weakness and significant deficiency.	No change. Definitions in AU-C 265 are for the purposes of GAAS.

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94	GAO	5	<p>To include definitions for material weakness and significant deficiency within the proposed SAS, given the significance of these terms to the content of the proposed SAS.</p> <p>Material weakness. <u>A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements or omission in relevant assertions, will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:</u></p> <p><u>Reasonably possible.</u> The chance of the future event or events occurring is more than remote but less than likely.</p> <p><u>Probable.</u> The future event or events are likely to occur.</p> <p>Significant deficiency. <u>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.</u></p>	<p>No change.</p> <p>Definitions in AU-C 265 are for the purposes of GAAS.</p>
95	Moss	5	<p>The following terms are not currently defined in the AU-C Glossary of Terms (AU-C Glossary) in AICPA Professional Standards, although the terms are used in extant AU-C sections. The terms are defined in the Proposed SAS, yet it is not clear whether the ASB intends to add these definitions to the AU-C Glossary and have them apply as defined throughout the rest of the AU-C sections. We suggest they be added to the AU-C Glossary and care taken that they are accurately defined for all AU-C sections where they appear, to avoid confusion or misinterpretation of those other AU-C sections.</p> <ul style="list-style-type: none"> • “control objective” – this term used in the glossary definitions of other terms, and it is used in AU-C Section 402 and AU-C Section 265 • “detective control” – this term is used in AU-C Section 265.A37 <p>The term “internal control over financial reporting” is also defined in the Proposed SAS. The term “internal control” is defined in the current AU-C Glossary. We understand the difference in these terms and their related definitions, and the need for separate definitions. The term “internal control over financial reporting” should be incorporated into the AU-C Glossary, and care taken to ensure it does not have unintended consequences for the rest of the AU-C sections.</p>	<p>Definitions in proposed SAS will be added to the glossary.</p> <p>A review of terms will be made for consistency of use</p> <p>Term will be added to glossary and reference to the term “ICFR” added to glossary entry of “internal control”.</p>

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			Furthermore, we believe the last paragraph of the definition, which explains the inherent limitations of internal control over financial reporting, does not belong in the definition. It is important information that should be included in the Proposed SAS, but a more appropriate place is within the text of the Proposed SAS, for example in paragraph .01.	Consistent with AS 5 definition; considered essential guidance
96	GAO	5	<p>Internal control over financial reporting (ICFR). A process effected by those charged with governance, management, and other personnel, designed to provide the entity with reasonable assurance regarding the preparation <i>and fair presentation</i> of reliable financial statements in accordance with the applicable financial reporting framework and includes those policies and procedures that</p> <p>i. ...;</p> <p>ii. provide reasonable assurance that transactions are recorded as necessary to permit <i>the</i> preparation <i>and fair presentation</i> of financial ...; and</p> <p>iii. provide reasonable assurance regarding prevention, or timely detection and correction <i>on a timely basis</i> of unauthorized acquisition, ...</p>	No change
97	DT	5, 6	<p>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:</p> <p><u>5. Criteria. The benchmarks used to measure or evaluate ICFR.</u></p> <p>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:</p> <ul style="list-style-type: none"> • <i>Relevance.</i> Criteria are relevant to ICFR. • <i>Objectivity.</i> Criteria are free from bias. • <i>Measurability.</i> Criteria permit reasonably consistent measurements, qualitative or quantitative, of ICFR. • <i>Completeness.</i> Criteria are complete when the evaluation of the effectiveness of ICFR prepared in accordance with the criteria does not omit relevant factors that could 	Added definition of criteria and moved par. 6 to be application material to par. 8.

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			reasonably be expected to affect decisions of the intended users made on the basis of management's report on ICFR.	
98	GAO	6	<p>Paragraph 6 of the proposed SAS does not include requirements and appears to be out of place. We suggest that the contents of paragraph 6, as revised within this enclosure, be moved to application guidance and linked to the requirements set forth in paragraph 7a.ii. of the proposed SAS. Additionally, we suggest that application guidance regarding the characteristics of available criteria be developed and linked to the same requirements.</p> <p>Reference to criteria in this proposed SAS means the <u>framework benchmarks</u> used by <u>management</u> to measure or evaluate ICFR.</p>	See previous comment.
99	GAO	A6	<p>To introduce the notion that internal control, as defined by the framework used by management, may be more broadly defined than ICFR, as defined by the proposed SAS. <u>A7. Internal control, as defined by the framework used by management, may be more broadly defined than ICFR. Management may use the 2013 <i>Internal Control – Integrated Framework</i> issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO framework), the U.S. Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> (the Green Book), or another framework in fulfilling its responsibility to evaluate the effectiveness of the entity's ICFR using suitable and available criteria. Additionally, the definition of ICFR included in the auditor's report on an audit of ICFR will match the description of the entity's ICFR used by management in its report on ICFR. As such, the definition of ICFR included in the auditor's report on an audit of ICFR may differ from the definition of ICFR included in this proposed SAS.</u></p>	Added paragraph A14a to address.
100	TN	6	<p>In ¶6, we suggest adding a reference to Exhibit C to clarify what is meant by management's report or include clarifying language in the application and explanatory material.</p>	Added as application material to definition of management's assertion (first mention of

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101	DT	7, A13, and 11	<p>In order to more closely align with AU-C Section 210, <i>Terms of Engagement</i>, 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 7<i>b</i>, 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 7<i>c</i>. We also have some minor editorial suggestions to paragraph A13 to further clarify the requirements in paragraph 7<i>c</i> (new). We recommend the following edits be made:</p> <p>7. AU-C section 210, <i>Terms of Engagement</i> (AICPA, <i>Professional Standards</i>), requires the auditor to establish whether the preconditions for an audit are present. In an audit of ICFR, the auditor should (Ref: par. A8)</p> <p><i>a.</i> obtain the agreement of management that it acknowledges and understands its responsibilities for ...</p> <p><i>v. providing the auditor with</i></p> <p><u>(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;</u></p> <p><u>(2) additional information that the auditor may request from management for the purpose of the audit of ICFR; and</u></p> <p><u>(3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.</u></p> <p><i>b.</i> ...</p> <p><u><i>c.</i> determine that the audit of ICFR is integrated with an audit of financial statements that covers the same period of time. (Ref: par. A13)</u></p> <p>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.</p>	<p>management’s report).</p> <p>Change made with respect to par. 7 subparagraph a, and par. A13.</p> <p>Revised par. 11 to clarify.</p>

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			<p>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 the date specified in management's assessment.</p> <p>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.</p>	
102	GAO	7b	<p>b. determine that the as of date <u>specified in management's assertion about ICFR</u> corresponds to the balance sheet date (or period ending date) of the period covered by <u>the most recent financial statements presented when more than one period's financial statements are presented</u>.</p>	<p>No change. "as of date" is defined in the objective; the "financial statements" are understood to be the financial statements being audited.</p>
103	TN	A8	<p>For ¶A8, also refer to the nonattest services requirements of the GAO, <i>Government Auditing Standards</i> (Yellow Book).</p>	<p>No change; Code of Conduct requires compliance with Yellow Book when applicable.</p>
104	DT	A8	<p>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, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>, (AU-C 200) and include the paragraph as application material to AU-C 200, paragraph 15.</p>	<p>Deleted par. A8 as unnecessary.</p>
105	TN	A9	<p>For ¶A9, we suggest that the last bullet should read "capable of being monitored and evaluated by the entity and those charged with governance."</p>	<p>No change. Those charged with governance</p>

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				are part of the entity.
106	DT	A9	We recommend changing the phrasing in the paragraph to read: A9 “Management is responsible for identifying and documenting the controls and the control objectives that they were are designed to achieve.”	No change. Consistent with AT 501.
107	TN	A13	For ¶A13, we believe the intent of “as of that date” is referring to the financial statement date. If that is the case, this needs to be clarified to ensure no misinterpretation.	Changed.
108	GAO	A13	If the auditor is required to determine that the as of date corresponds to the balance sheet date (or period ending date) of the period covered by the most recent financial statements presented, it follows that the auditor would not be able to perform an integrated audit under this proposed SAS. Additional suggested edits are included to clarify that the as of date specified in management’s assertion about ICFR should correspond to the date of the most recent financial statements presented. 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, <u>which typically corresponds to the balance sheet date (or period ending date) of the entity’s financial statements</u> ; however, management may select a different date <u>for its assertion about ICFR</u> . If the auditor is engaged to audit the effectiveness of an entity’s ICFR <u>as of at</u> a date different from <u>the balance sheet date (or period ending date) of the entity’s financial statements</u> the end of the entity’s fiscal year , <u>the engagement audit will not satisfy the preconditions for the audit of ICFR is, nevertheless, required by paragraph 7a.iv to be integrated with a financial statement audit as of that date</u> . <u>In such circumstances, the engagement would be performed as an examination under the attestation standards.</u>	No change. This standard addresses integrated audits which require the same date for both pieces.
109	TN	8	For ¶8, we believe the “available criteria” should be appropriate and reasonable for the industry in which the entity operates.	No change. “Suitable” addresses reasonableness for the industry.
110	DT	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	Revised to not presume

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			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.	management uses 2013 COSO.
111	PwC	A14	<p>We recommend defining “2013 COSO framework” more fully as shown below at its first appearance in the ED:</p> <p style="padding-left: 40px;">.A14 The <i>Committee of Sponsoring Organizations of the Treadway Commission’s 2013 Internal Control-Integrated Framework (2013 COSO Framework)</i> and the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government (“Green Book”) provide suitable and available criteria against which management may evaluate and report on the effectiveness of the entity’s ICFR.</p>	Defined in par. 25 which will appear before the application material in the final standard.
112	GAO	A14	<p>Suggested edit resulting from the anticipated incorporation of other suggested edits into the proposed SAS. Specifically, see the GAO comment on paragraph 6 above.</p> <p>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 <i>[see GAO comment on paragraph 6 – reference will need to be updated based on the placement of application guidance to be linked to paragraph 7a.ii. above]</i> for guidance on evaluating the suitability <u>and availability</u> of the framework selected by management.</p>	No change. Par. 6 does not address evaluating the availability of the criteria.
113	DT	9, A15, 76 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	Changed. Revised paragraph 9 to state that this is a scope limitation and refer to par. 76.

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			<p>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:</p> <p>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)</p> <p>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.</p> <p>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)</p> <p>76x. <u>When a scope limitation arises because</u> If management refuses to furnish a written assertion, despite its initial agreement to provide one, the auditor should withdraw from the engagement.</p> <p>76y. However, if <u>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.</u></p> <p>A111. When withdrawal is not possible under applicable law or regulation, the auditor would disclaim an opinion.</p>	
114	TIC	9	<p>The second sentence of this paragraph states: <i>If management refuses to furnish a written assertion despite its initial agreement to provide one, the auditor should withdraw from the engagement.</i></p> <p>TIC believes this paragraph should be clarified to discuss those situations where the auditor is required to withdraw from the integrated audit due to management's refusal to furnish a written assertion but, for whatever reason, will continue with the audit of the basic financial statements. TIC recommends that the above sentence be amended, as follows:</p>	<p>No change. Par 76 contains requirement to consider the implications for the financial statement audit.</p>

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			<p><i>...the auditor should withdraw from the ICFR engagement.</i> [Emphasis added] In addition, application material should be added to discuss the auditor's considerations and responsibilities with respect to the audit of the basic financial statements when management refuses to furnish a written assertion on ICFR.</p>	
115	GT	10, A16	The second bullet of paragraph 10, to which this application guidance applies, discusses the control risk assessment for purposes of the financial statement audit. We believe the application guidance would be clearer if it used consistent verbiage. Therefore, we propose that "operating effectiveness of controls" be replaced with "a control risk assessment of low."	No change. Suggested verbiage is not used elsewhere.
116	TN	11	For ¶11, we suggest adding to the application and explanatory material language to clarify if "period of time" is intended to be different than the fiscal year end. Since "period of time" could be for less than one fiscal or calendar year, we believe this should be clarified.	Changed
117	NSAA	11, A13	Paragraphs 11 and A13 – There is some confusion about ICFR audits as of dates between these two paragraphs. Paragraph A13 indicates that if an audit of ICFR is at a date that is different from the end of the entity's fiscal year, the audit is to be integrated with a financial statement audit as of "that" date. It is unclear in this paragraph whether "that" date is referring to the different ICFR audit date versus the fiscal year-end date. However, paragraph 11 indicates that if engaged to audit the ICFR for a "period of time," the requirements and guidance should be modified accordingly and be integrated with a financial statement audit that covers the same time period. This seems to imply that the audit of ICFR must be as of the same date as the financial statements whether or not it is at fiscal year-end, but it is not completely clear in this paragraph whether "period of time" could mean less than an entire fiscal year. We believe paragraph 11 should specify that "period of time" could be less than an entire 12-month period, referring to paragraph 46, which provides specifics about timing of obtaining evidence. We also suggest the Board, in both paragraphs A13 and 11, clearly state that the ICFR audit as of date must be the same as the period end date covered by the audited financial statements even if that date differs from the fiscal year-end date.	Changed to clarify that the financial statements and ICFR audit are required to cover the same period of time.

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118	PwC	13	<p>Par. 13: We recommend adding the phrase shown below to the last sentence of this paragraph to clarify the importance of integration with the financial statement audit when forming an opinion on the effectiveness of ICFR:</p> <p style="padding-left: 40px;">13. . . . See paragraphs 55-56 for requirements on evaluating the effects of findings, <i>including those from the financial statement audit</i>, when forming an opinion on the effectiveness of ICFR.</p>	Changed
119	GAO	A18	Since the contents of extant AT section 501 will be moved from the attestation standards into the auditing standards, paragraph A18 may not be needed.	Deleted. A18 addresses financial statements audit.
120	DT	A18	<p>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:</p> <p>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.</p>	Deleted A18.
121	GAO	A19	A19. Consideration of the results of tests of controls may cause the auditor to <u>reassess the risk of material misstatement to each relevant assertion</u> ; alter the nature, timing, and extent of substantive procedures and to plan and perform further tests of controls, particularly in response to identified deficiencies; <u>or both</u> .	No change. Addition does not change or clarify the material.
122	TN	A20	For ¶A20 and the bullet referring to legal or regulatory matters, we believe there should be some expectation that management has identified a complete and accurate listing of all applicable laws and regulations.	No change

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123	PwC	A21	<p>Par. A21: We suggest including the title of AU-C section 315 in the last sentence of this paragraph as shown below:</p> <p style="padding-left: 40px;">A21. . . . The risk assessment procedures described in AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, support both the financial statement audit and the audit of ICFR.</p>	No change, first mention is in par. 38.
124	PwC	17	<p>Par. 17: We recommend the edits shown below to improve the clarity of this paragraph and to make it more consistent with extant AT 501.27:</p> <p style="padding-left: 40px;">17. As part of identifying <i>and testing</i> entity-level controls, as discussed beginning at paragraph 24, and selecting <i>other</i> controls to test, as discussed beginning at paragraph 39, the auditor should evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and the risk of management override of controls.</p>	Revised
125	PwC	A24	<p>Par. A24: We suggest including the title of AU-C section 240 in the first sentence of this paragraph as shown below:</p> <p style="padding-left: 40px;">A24. AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, addresses the auditor's identification and assessment of the risks of material misstatement due to fraud.</p>	Added at first mention in par. 18.
126	BDO	19, A25	<p>We note that the proposed SAS permits the use of the work of internal auditors and others in obtaining audit evidence about the effectiveness of internal control over financial reporting. The proposed SAS would require the auditor planning to use the work of others in the audit of ICFR to adapt and apply, as necessary, the requirements of AU-C section 610, <i>Using the Work of Internal Auditors</i>, including the need for others to apply a systematic and disciplined approach. While we agree with this requirement, we believe the guidance that explains that it would not be appropriate to use the work of others that do not have a systematic and disciplined approach, as required by AU-C 610, should be given more prominence and elevated to a requirement, in particular</p>	Revised par. A28 to make this more prominent.

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			since this is a significant change from AT 501 and differs from the approach taken in AS 5.	
127	VA	19, A25	We believe the Board should provide additional guidance and examples on when an auditor may rely on work performed by "others" as referred to in paragraphs 19 and A25. An auditor's use of entity personnel, whom often perform operational duties, would not be appropriate when personnel are not objective. We believe there would be limited instances when entity personnel would be objective, such as when a unit exits that reviews the work of another operational unit. We suggest enhanced guidance to address the risks involving reliance on others' work beyond considerations of internal control risk. We also suggest providing examples to add context to how to apply the guidance. We further recommend addressing the risk concerning smaller, less complex entities since those entities often experience difficulties segregating duties.	Revised; deleted par. 20-21 and inserted new wording in par 19 and A25.
128	PwC	21	Paragraph 21 of the proposed SAS requires the external auditor to adapt and apply, as necessary, the requirements in AU-C 610, <i>Using the Work of Internal Auditors</i> (AU-C 610), when the external auditor plans to use the work of others in obtaining audit evidence or to provide direct assistance in the audit of ICFR. We believe the term "adapt and apply, as necessary," is too vague with respect to this particular standard and may result in inconsistent application of AU-C 610 in using the work of others related to an audit of internal control over financial reporting that is integrated with an audit of the financial statements (integrated audit). We recommend that the proposed SAS either be specific as to what requirements in AU-C 610 relate to the integrated audit, or if the intent is that all of AU-C 610 applies, then change the requirement to state that.	See above.
129	NSAA	21, A25	Paragraph 21 and A25 – Paragraph 21 clearly states that when the auditor uses the work of others, he/she must adapt and apply, as necessary, the requirements in AU-C section 610. However, paragraph A25 is not so clear. In fact, because paragraph A25 explicitly states that AU-C 610 applies when using the work of internal auditors but makes no similar statement regarding using the work of others, it implies auditors would not have to apply AU-C 610 when using the work of others. The requirement to adapt and apply AU-C 610 when using the work of others is clear in the explanatory memorandum on page 5, fourth bullet, and in paragraph 21. We believe the Board should revise paragraph A25 to make it consistent with paragraph 21 and remove the ambiguity on this issue.	See above.

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130	PwC	A28	<p>Also, to improve the clarity of related application guidance in paragraph A28, we recommend editing the third sentence in that paragraph as shown below:</p> <p style="padding-left: 40px;">A28 . . . In addition, <i>for purposes of evaluating the application of a systematic and disciplined approach, including quality control, as required by AU-C 610</i>, others may have an approach that differs from that of an internal audit function, particularly with respect to the level of formality. However, it would be inappropriate to use the work of others that do not have a systematic and disciplined approach. AU-C 610 provides additional requirements and guidance in determining when to use the work, in which areas, and to what extent.</p>	Clarified by making 2 paragraphs and adding reference to quality control.
131	GAO	25	<p>Given that the proposed SAS presumes the use of the 2013 COSO framework by management, our suggested revisions are intended 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.</p> <p>In addition to these revisions, ASB should consider amending AU-C 315 to better align its descriptions of each component of internal control with the descriptions presented in the 2013 COSO framework.</p> <p style="padding-left: 40px;">25. The auditor should perform the procedures required by paragraphs 26–30 to evaluate the five components and <i>related relevant</i> principles of internal control and determine whether</p> <p style="padding-left: 40px;">(1) the five components and <i>related relevant</i> principles are present and functioning in the design, implementation, and operation of ICFR and</p> <p style="padding-left: 40px;">(2) <i>whether</i> 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)</p>	See Summary of Comments, Q3.

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132	DT	25, A36, and A37	<p>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, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, would provide further clarity regarding the internal control components.</p> <p>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:</p> <p>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), tThe auditor should adapt and apply the requirements in paragraphs 26–30, as necessary, based on the framework used by management. (Ref: par. A36–A37)</p> <p>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</p>	See Summary of Comments, Q3.

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			<p>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 <u>Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO framework)</u> and the U.S. Government Accountability Office’s <u>Standards for Internal Control in the Federal Government (the Green Book)</u>. 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.</p> <p>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.</p> <p>Footnote x: Paragraphs .15 - .25 of AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AICPA, Professional Standards)</i>.</p>	
133	KPMG	25-30, A36-A37	<p>We suggest changing paragraph .25, moving paragraphs .26-.30 to application paragraphs, and removing the Proposed SAS paragraphs .A36-.A37 (new content underscored; deleted content strike-through).</p> <p>.25 The auditor should perform the <u>necessary</u> 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 effectiveness of ICFR, and whether the five components are operating together in an integrated manner to achieve the entity’s financial reporting objectives based upon the criteria of the selected framework. <u>For example, if management selected the 2013 COSO Framework, the procedures described in paragraphs .A36-.A40, to evaluate the five components and relevant principles contained in the 2013 COSO, may be appropriate.</u> When management uses a framework other than the 2013 <i>Internal</i></p>	See Summary of Comments, Q3.

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			<p>Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO framework), <u>If management uses the Green Book or another suitable and available framework, the auditor may adapt and apply the requirements in paragraphs 26–30, the procedures in paragraphs .A36-.A40, as necessary, based on upon the criteria contained in the framework used by management.</u> (Ref: par. A36-A41).</p> <p>In addition, we recommend that the Board add an additional application paragraph that explains the concept of “relevant principles” consistent with the explanation contained within the COSO 2013 Framework. The following application paragraph, verbatim from the COSO 2013 Framework, would accomplish our suggestion:</p> <p>.AXX The 2013 COSO Framework presumes that all principles are relevant because they have a significant bearing on the presence and functioning of an associated component. There may be a rare industry, operating, or regulatory situation in which management has determined that a principle is not relevant to a component. Considerations in applying this judgment may include the entity structure recognizing any legal, regulatory, industry, or contractual requirements for governance of the entity, and the level of use and dependence on technology used by the entity. Management must support its determination that a principle is not relevant with the rationale of how, in the absence of that principle, the associated component can be present and functioning.</p>	
134	EY	26	<p>We recommend that Paragraph 26 of the proposed SAS be revised to clarify the ASB’s intent of the requirement. The paragraph currently states:</p> <p style="padding-left: 40px;">The auditor is required to obtain an understanding of the control environment. In addition, the auditor should evaluate the control environment by determining whether the following principles exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives.</p> <p>We believe that the beginning of the second sentence — that is, the words “In addition, the auditor should ...” — and similar language in paragraphs 27-30 could lead to confusion about whether the procedures that follow are required. We suggest the following revision to paragraph 26 (and corresponding revisions to paragraphs 27-30):</p>	<p>No change. This is inconsistent with clarity drafting rules.</p>

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			<p>The auditor is required to obtain an understanding of the control environment. In addition, the auditor should <i>is required to</i> evaluate the control environment by determining whether the following principles exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives.</p>	
135	DT	26 – 30	<p>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.</p>	See Summary of Comments, Q3.
136	GAO	26, A38	<p>Because the auditor may need to determine whether the related principles, as identified by the Green Book, exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives, we suggest relocating the listing of 2013 COSO framework principles to application guidance and including “related principles” in the requirement.</p> <p>26. The auditor is required to obtain an understanding of the control environment. In addition, the auditor should evaluate the control environment by determining whether the related following principles exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives.†</p> <p>Move all bullets that follow to new paragraph preceding A38, with the following lead-in: <i>The 2013 COSO framework identifies the related principles for the control environment as</i> Combine existing A39 with existing A38.</p>	See Summary of Comments, Q3.
137	GAO	A36-A37	<p>A36. 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. <i>The 2013 COSO framework introduced the concept of principles related to the five components of internal control. These principles support the effective design, implementation, and operation of the related components and represent the requirements necessary to establish an effective internal control system. To assist users in determining whether the five components and related principles are present and functioning, the 2013 COSO</i></p>	See Summary of Comments, Q3.

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			<p><i>framework refers to "present" as the determination that the components and relevant principles exist in the design and implementation of the system of internal control to achieve specified objectives, and "functioning" as the determination that the components and relevant principles continue to exist in the operations and conduct of the system of internal control to achieve specified objectives. The 2013 COSO framework also refers to "operating together" as the determination that all five components collectively reduce, to an acceptable level, the risk of not achieving an objective. Components should not be considered discretely; instead, they operate together as an integrated system. Components are interdependent with a multitude of interrelationships and linkages among them, particularly the manner in which principles interact within and across components.</i></p> <p><i>A37. The entity's financial reporting objectives, if achieved, provide the entity with reasonable assurance that material misstatements or omissions in the financial statements are prevented, or detected and corrected, on a timely basis. Such financial reporting objectives typically are disaggregated into individual control objectives designed to address the assessed risk of material misstatement to each relevant assertion for significant classes of transactions, account balances, or disclosures. The principles are fundamental concepts associated with components that are suitable to all entities. The 2013 COSO framework indicates that 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.</i></p> <p>A38<i>A37. When management uses the Green Book or another framework to evaluate the effectiveness of the entity's ICFR, 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 determines whether the related principles, as identified by the Green Book, exist in the design, implementation, and operation of ICFR to achieve the entity's financial reporting objectives assesses the relevant principles in the Green Book in lieu of the principles listed in paragraphs 26–30.</i></p>	
138	GT	26-30	Consider including the notion of "relevant" principles (as described in paragraph 25) to be clear that not all principles may be applicable.	See Summary of Comments, Q3.

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139	GAO	27	Because the auditor may need to determine whether the related principles, as identified by the Green Book, exist in the design, implementation, and operation of ICFR to achieve the entity's financial reporting objectives, we suggest relocating the listing of 2013 COSO framework principles to application guidance and including "related principles" in the requirement. Delete "Entity's...Process" from header.	See Summary of Comments, Q3.
140	NSAA	A40	Paragraph A40 – We believe this paragraph is misplaced and should be moved before paragraph A38 and referenced to paragraph 26. This would make the placement of this reference consistent with similar references under each of the other four internal control components.	Moot due to other revisions.
141	PwC	A40	Par. A40: This paragraph relates to the control environment and it should be moved so that it appears under the "Control Environment" subheader rather than the "Entity's Risk Assessment Process" subheader. In addition, we suggest adding a parenthetical reference to par. A40 at the end of the introductory text preceding the bullets in par. 26 since par. A40 applies to all of the bullets.	Moot due to other revisions.
142	GT	A40	This application guidance appears under the "Entity's Risk Assessment Process" heading, but we believe it should appear under the "Control Environment" heading instead.	Moot due to other revisions.
143	TN	28	For ¶28, we believe the completeness and accuracy of the information should be addressed in the requirements.	See Summary of Comments, Q3.
144	GAO	28	Because the auditor may need to determine whether the related principles, as identified by the Green Book, exist in the design, implementation, and operation of ICFR to achieve the entity's financial reporting objectives, we suggest relocating the listing of 2013 COSO framework principles to application guidance and including "related principles" in the requirement. <i>Information and Communication The Information System</i> 28. The auditor is required to obtain an understanding of the entity's information <i>and communication processes system, including the related business processes relevant to financial reporting and communication</i> . In addition, the auditor should evaluate the entity's information <i>and communication processes system</i> by determining whether the	See Summary of Comments, Q3.

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			<p>related following principles exist in the design, implementation, and operation of ICFR to achieve the entity's financial reporting objectives.</p> <p>Move all bullets that follow to new paragraph preceding A42, with the following lead-in: <i>The 2013 COSO framework identifies the related principles for information and communication as</i></p> <p>A42. AU-C section 315 provides guidance with respect to the entity's information and communication processes <i>system, including the related business processes relevant to financial reporting and communication.</i></p>	
145	EY	29	<p>We suggest the following revisions to paragraph 29 to clarify the ASB's intent:</p> <p>The auditor is required to obtain an understanding of the entity's control activities relevant to the financial statement audit. In addition, the auditor <i>is required to</i> should evaluate the entity's control activities relevant to the audit of ICFR by determining whether the following principles exist in the design, implementation, and operation of ICFR to achieve the entity's financial reporting objectives:</p> <ul style="list-style-type: none"> ▶ The entity selects and develops control activities that contribute to the mitigation of risks to the achievement of financial reporting objectives to acceptable levels. ▶ The entity selects and develops general control activities over technology to support the achievement of financial reporting objectives. and ▶ The entity deploys control activities through policies that establish what is expected and procedures that put policies into action <i>to support the achievement of financial reporting objectives.</i> 	<p>First suggestion moot due to other revisions.</p> <p>Not changed; inconsistent with COSO wording of principle.</p>
146	GAO	29	Because the auditor may need to determine whether the related principles, as identified by the Green Book, exist in the design, implementation, and operation of ICFR to	See Summary of Changes, Q3.

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			<p>achieve the entity’s financial reporting objectives, we suggest relocating the listing of 2013 COSO framework principles to application guidance and including “related principles” in the requirement.</p> <p>Delete “Relevant to the Audit of ICFR” from heading.</p> <p>29. The auditor is required to obtain an understanding of the entity’s control activities relevant to the <i>integrated audits of the financial statements and ICFR. financial statement audit</i>. In addition, the auditor should evaluate the entity’s control activities relevant to the audit of ICFR by determining whether the <i>related following</i> principles exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives.†</p> <p>Move all bullets that follow to new paragraph preceding A43, with the following lead-in: <i>The 2013 COSO framework identifies the related principles for control activities as</i></p>	
147	GAO	A43, A44	<p>A43. AU-C section 315 provides guidance with respect to the entity’s control activities relevant to the financial statement audit. Also see paragraph 12 A16 of this proposed SAS.</p> <p>A44. Control activities relevant to the audit of ICFR include those related to each significant class of transactions, account balance, and disclosure and their relevant assertions (see paragraphs 33–35). Paragraph 38 also requires the auditor to understand how IT affects the entity’s flow of transactions.</p>	Changed.
148	TIC	A43	<p>Paragraph A43—The last sentence of this paragraph includes a cross-reference to paragraph A16. However, paragraph A16 does not seem relevant to control activities relevant to internal control over financial reporting. TIC recommends that this paragraph be reassessed to determine if a different paragraph was meant to represent the cross-reference.</p>	Changed; see above
149	GAO	30	<p>Because the auditor may need to determine whether the related principles, as identified by the Green Book, exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives, we suggest relocating the listing of</p>	See Summary of Changes, Q3.

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			<p>2013 COSO framework principles to application guidance and including “related principles” in the requirement.</p> <p>Delete “of Controls” from heading.</p> <p>30. The auditor is required to obtain an understanding of the entity’s monitoring of controls. In addition, the auditor should evaluate the entity’s monitoring <i>of controls activities</i> by determining whether the <i>related following</i> principles exist in the design, implementation, and operation of ICFR to achieve the entity’s financial reporting objectives.¹</p> <p>Move all bullets that follow to new paragraph preceding A45, with the following lead-in: <i>The 2013 COSO framework identifies the related principles for monitoring as</i></p>	
150	TN	31	For ¶31 (last bullet), we believe “, including note disclosures” should be added to the end of the phrase.	Changed
151	GAO	32	32. As part of evaluating the period-end financial reporting process, the auditor should consider <i>assess</i>	No change
152	GT	32	In the second bullet, we recommend defining “IT” as “information technology (“IT”)” since this is the first place the term is used in the proposed standard.	No change. Usage consistent with AU-C 315.
153	GT	33-35	Please refer to our general comments regarding the phrase “significant classes of transactions, account balances and disclosures” in the body of this letter. As described above, we believe that these paragraphs should revert back to the extant language pending further analysis of AU-C section 315 matters and potential changes.	See Summary, Q4
154	EY	A53	▶ We recommend removing “recalculation” from the proposed list of procedures to be performed when obtaining an understanding of likely sources of misstatement, evaluating design effectiveness of controls and testing operating effectiveness of controls ¹ to avoid potential unintended consequences such as an auditor performing recalculation as a substantive procedure to infer that a control is designed and	Changed

¹ Proposed SAS, paragraphs A53, A60, A68, A70 and A72

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			<p>operating effectively. PCAOB AS 5 does not include recalculation as a procedure to be performed in these circumstances.² When applying PCAOB AS 5, recalculation is performed only in connection with the reperformance of a control owner's procedures. Otherwise, the execution of this procedure could be viewed as a substantive procedure performed to infer that a control is designed and operating effectively. As stated in PCAOB AS 5 and the proposed SAS: "To obtain evidence about whether a selected control is effective, the control must be tested directly; the effectiveness of a control cannot be inferred from the absence of misstatements detected by substantive procedures."³ This interpretation of PCAOB AS 5 has been reinforced through audit deficiencies noted by the PCAOB.</p>	
155	EY	A53	<p>► We suggest the following revision to paragraph A53 to clarify that a walkthrough of a single transaction may not be sufficient to obtain an understanding of the likely sources of misstatement for a significant class of transactions with multiple transaction types (e.g., direct deposit versus payment by check in a payroll process).</p> <p>Performing walkthroughs will frequently be the most effective way of achieving the objectives in paragraph 36. A walkthrough involves following a transaction from origination through the entity's processes, including information systems, until it is reflected in the entity's financial records, using the same documents and IT that entity personnel use. <i>If a significant class of transaction contains more than one material transaction type, a walkthrough of multiple transactions may need to be performed to understand the likely sources of misstatement for each material transaction type.</i> Walkthrough procedures include a combination of inquiry, observation, inspection of relevant documentation, recalculation and control reperformance.</p>	Not changed; Task Force did not believe change was necessary.
156	PwC	A53	<p>Par. A53: We suggest editing the last sentence in this paragraph as shown below to clarify that not all the procedures identified need be performed on every walkthrough, to be consistent with the first sentence of paragraph A68 of the proposed SAS, and to be consistent with extant AT 501.52:</p>	Revised

² PCAOB AS 5, paragraphs 37 and 45

³ PCAOB AS 5, paragraph B9 and the Proposed SAS, paragraphs 44 and A69

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			A53. Walkthrough procedures <i>may</i> include a combination of inquiry, observation, inspection of relevant documentation, recalculation and control reperformance.	
157	TIC	A53	<p>Paragraph A53—The second sentence of this paragraph states: <i>A walkthrough involves following a transaction from origination through the entity’s processes, including information systems, until it is reflected in the entity’s financial records using the same documents and IT that entity personnel use.</i></p> <p>TIC noted that the above sentence differs slightly from a similar sentence that appears in AICPA Audit Guide, <i>Assessing and Responding to Audit Risk in a Financial Statement Audit</i> (the Guide). Paragraph A53 refers to “financial records,” while paragraph 3.124 of the Guide refers to “financial statements.” TIC recommends that this inconsistency be resolved by changing the phrase in paragraph A53 from “financial records” to “financial statements.” TIC believes the wording in the ED should be conformed to the phrase used in the Guide because the auditor expresses an opinion on the financial statements, not the “financial records.”</p>	Changed
158	GAO	A53-A54	<p>A53. Performing <u>walk-throughs</u> will frequently be the most effective way of achieving the objectives in paragraph 36. A <u>walk-through</u> involves following a transaction from origination through the entity’s processes, including information systems, until it is reflected in the entity’s financial records, using the same documents and IT that entity personnel use. <u>Walk-throughs are designed to inform the auditor’s understanding of the design effectiveness and implementation of the control activities as part of the auditor’s risk assessment process and allow the auditor to identify the points within the processes at which a control activity that is not effectively designed and implemented, or operated (i.e., the control activity fails), could result in a material misstatement. Walk-throughs procedures include a combination of inquiry, observation, inspection, and collection of relevant documentation, recalculation, and control reperformance. With respect to inquiry, a walk-through includes questioning the entity’s personnel about their understanding of what is required by the entity’s prescribed procedures and controls activities at the points at which important processing procedures occur. Additionally, probing questions that go beyond a narrow focus on the single transaction used as the</u></p>	Not changed.

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			<p><u>basis for the walkthrough may provide an understanding of the different types of significant transactions handled by the process.</u> Delete paragraph A54.</p>	
159	TIC	A54	<p>Paragraph A54 of the ED includes a few explicit points as to what a walkthrough involves and how it is performed and suggests that “probing questions” may be effective as part of the auditor’s walkthrough procedures. However, the guidance provided in the ED is not repeated in AU-C 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>. Walkthroughs are only mentioned in passing (paragraphs AU-C 315.A13 and .A69.), with detailed guidance on this topic provided only in the AICPA Audit Guide, <i>Assessing and Responding to Audit Risk in a Financial Statement Audit</i> (the Guide), paragraphs 3.122-3.127 and 6.65-6.68. Since walkthroughs are a common procedure in non-integrated audits of an entity’s financial statements, TIC believes it is important to have consistent guidance on this topic for both integrated and non-integrated audits, unless a reason exists for differences.</p> <p>TIC recommends that the Board reconsider paragraphs A53-A54 of the ED and decide whether “probing questions” are an important element for walkthroughs of nonintegrated audits. If so, the text of A53-A54 should be added to AICPA Audit Guide, <i>Assessing and Responding to Audit Risk in a Financial Statement Audit</i> (the Guide). If not, then the ED should be clarified to indicate that the “probing questions” are unique to integrated audits. Without such clarification, auditors may become confused as to the extent of the inquiries necessary for integrated v. nonintegrated audits.</p>	<p>Wording is from AS5. No change. Consider as part of consistency review (consistency with IAASB versus consistency with PCAOB).</p>
160	GAO	36	<p>Suggested edits to provide one comprehensive definition of a walkthrough, which was previously discussed separately in paragraphs A53, A54, A58, and A68 of the proposed SAS.</p> <p>36. To further understand the likely sources of potential misstatements, and as a part of selecting the controls to test, the auditor should</p> <ul style="list-style-type: none"> • Understand the flow of transactions related to the <u>control objectives, or relevant assertions for significant classes of transactions, account balances, or disclosures</u>, including how these transactions are initiated, authorized, recorded, processed, and reported. 	<p>No change – wording is from AS5.</p>

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161	DT	A55	<p>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:</p> <p>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 <u>the assessment of risks of material misstatement</u>. the risks to assess.</p>	Sentence deleted as redundant because par. 38 refers to AU-C 315.
162	TN	39	<p>For ¶39, we believe the controls to test should be focused on those that are significant or key controls. We believe this principle should be established early in the requirements so that the intent of testing is clear to auditors that not all controls have to be tested.</p>	No change. Addressed in A56.
163	GAO	A57	<p>A58A57. The decision concerning whether a control is important to the auditor's conclusion and would be selected for testing depends on which controls, individually or in combination, sufficiently address the assessed risk of material misstatement to a given relevant assertion and collectively achieve the entity's financial reporting objectives, rather than on how the control is labeled (for example, entity-level control, transaction-level control, control activity, monitoring control, preventive control, or detective control).</p>	No change, to be consistent with AS5.
164	TIC	A58, A60	<p>Paragraphs A58 and A60—TIC noted inconsistencies in language between the ED and AU-C 315 and AU-C 330 regarding procedures performed to evaluate the design effectiveness and test the operating effectiveness of ICFR. Paragraphs A58 and A60 of the ED explain that evaluating design effectiveness or testing the operating effectiveness of a control may include:</p> <p><i>a mix of inquiry of appropriate personnel, observation of the entity's operations and inspection of relevant documentation, recalculation, and reperformance of the control.</i> [Emphasis added]</p> <p>Although use of the phrase "observation of the entity's operations" is consistent with sentences in AS 5 (paragraphs 43 and 45) and AT 501.59, this phrase differs from the discussion of this topic in AU-C 315.A69 and AU-C 330.A28. AU-C 315.A69 talks about "observing the application of specific controls" when obtaining evidence about the design and implementation of relevant controls. AU-C 330.A28 does not mention either concept and offers only inspection, recalculation and reperformance as the procedures</p>	Changed to be consistent with AU-C 315

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			<p>that would be performed in combination with inquiries of entity personnel when testing the operating effectiveness of controls.</p> <p>TIC could not think of any reasons why the application guidance in this ED should differ from the application guidance in the general risk assessment standards. However, TIC believes that referring only to the entity's operations is too broad to be helpful and that the auditor is more likely to be focused on the observation of specific controls (as discussed in AU-C 315.A69).</p> <p>TIC therefore recommends that the Board re-examine paragraphs A58 and A60 of this ED, along with AU-C 330.A28, to ensure that the guidance across these standards is consistent. TIC believes the best alternative for each standard is "observation of specific control activities." TIC also recommends adding the following phrase to paragraph A60: <i>Inquiry alone, however, is not sufficient for such purposes.</i></p>	
165	GAO	40	<p>3940. The auditor should evaluate the design effectiveness of controls by determining whether the entity's controls, if they are applied <u>implemented and operated</u> as prescribed by persons possessing the necessary authority and...</p>	<p>Changed to "operated" to be consistent with AS 5.</p>
166	TIC	A60	<p>Paragraph A60—In addition to the edits suggested above, TIC also recommends that the guidance in paragraph A60 include a cross-reference to AU-C 330.A28+, which provides additional guidance on the mix of procedures (other than inquiry) that may be appropriate when testing the operating effectiveness of controls. TIC believes this cross-reference is necessary if the final integrated audit SAS will not provide detailed application guidance on these tests of controls.</p>	<p>Changed.</p>
167	DT	A64	<p>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.</p>	<p>Fits in either place, no change.</p>
168	GAO	A68	<p>A68. Walkthroughs may include a combination of inquiry of appropriate personnel, observation of the entity's operations, inspection of relevant documentation, recalculation, and reperformance of the control and might provide sufficient appropriate audit evidence of operating effectiveness,...</p>	<p>Changed. Repetitive of par. A53.</p>

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169	EY	A69	<p>► We suggest the following revision to paragraph A69 to align with PCAOB AS 5 and to clarify that the absence of misstatements detected by substantive procedures should be a consideration when making risk assessments, and such consideration may or may not change the auditor’s risk assessment in determining the testing necessary to conclude on the operating effectiveness of a control. Further, we believe this revision reinforces the requirement that evidence about whether a selected control is effective must be obtained through directly testing that control.</p> <p style="padding-left: 40px;">The operating effectiveness of a control cannot be inferred from the absence of misstatements detected by substantive procedures. The absence of misstatements detected by substantive procedures, however, may affect <i>informs</i> the auditor’s risk assessments in determining the testing necessary to conclude on the operating effectiveness of a control.</p>	Changed.
170	DT	A70	<p>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:</p> <p>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. <u>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.</u></p> <p>We also recommend including a reference in paragraph 42, which addresses the sufficiency and appropriateness of evidence, to the application guidance in paragraph A70.</p>	No change. See par. A68.

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171	TIC	A72	Paragraph A72—This paragraph provides guidance for testing control effectiveness in smaller, less complex entities that may have relatively informal documentation regarding the operation of their controls. In discussing the other procedures that could supplement inquiries of management, an example given is “observation of activities.” Although this language is consistent with AS 5.51 and AT 501.71, TIC believes it is too general to be useful and should be changed to “observation of specific control activities.” This alternative is consistent with our recommendation above and would also maintain consistency of language within the ED.	Changed
172	TIC	44	Paragraph 44—The ED includes application guidance for this requirement; however, the requirement paragraph does not include a cross-reference to the application material. TIC recommends that a cross-reference to paragraphs A69 through A72 be added to the final standard.	No change. Reference is in par. 43.
173	EY	45. A73	The proposed standard includes reference to “control deviations” in paragraphs 45 and A73. We suggest the term “control deviation” be defined in the “Definitions” section as “an occurrence of a control being tested that did not operate as designed or was not performed for a transaction(s). All control deviations should be evaluated to determine if a deficiency in internal control exists.” While this term is not defined in PCAOB AS 5, it has been our experience that confusion exists among the terms “control deviation” and “control deficiency” and the corresponding required audit response.	Added as application material
174	BDO	A74	Paragraph A74 explains that an audit of ICFR entails testing the design and effectiveness of controls to support the auditor’s opinion on the entity’s ICFR. It further explains that the control testing ordinarily involves testing controls not ordinarily tested when expressing an opinion only on the financial statements. While we do not disagree with this statement, we believe that, in the context of explaining the extent of testing, the more important point to clarify is that in determining which controls to test the auditor focuses testing on those controls that if missing or deficient present a reasonable possibility of resulting in a material misstatement of the financial statements. Accordingly, we suggest revising the last sentence of paragraph A74 as follows to reflect this change in focus:	Changed

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			Accordingly, an audit of ICFR <u>may</u> entail testing the design and operating effectiveness of controls <u>ordinarily</u> not tested when expressing an opinion only on the financial statements; however, in both an audit of ICFR and a financial statement audit, the <u>auditor directs attention to controls that present a reasonable possibility that, if missing or deficient, would result in a material misstatement of the financial statements.</u>	
175	EY	A74	<p>▶ We suggest paragraph A74 be revised as follows:</p> <p style="padding-left: 40px;">The objective of the tests of controls in an audit of ICFR is to obtain evidence about the effectiveness of controls to support the auditor’s opinion on the entity’s ICFR. The auditor’s opinion relates to the effectiveness of the entity’s ICFR as of a point in time and as a whole. Accordingly, an audit of ICFR entails testing the design and operating effectiveness of controls ordinarily not tested when expressing an opinion only on the financial statements <i>as well as other controls that may not be tested when expressing an opinion only on the financial statements.</i></p> <p>While it is accurate that an audit of ICFR entails testing a greater number of controls than might be tested when expressing an opinion only on the financial statements, it has been our experience that many of the controls tested in an audit of ICFR are the same controls that would be tested for a financial statement audit. We believe the proposed revision provides this clarification.</p>	See above
176	NSAA	A75-A76	Paragraphs A75 and A76 – The guidance in these paragraphs could be combined since they both essentially explain things that provide greater evidence, including testing over a longer period of time and testing more extensively. In addition, the last sentence of paragraph A75 is not necessarily true. Testing performed closer to the as of date may not necessarily provide more evidence than testing performed earlier in the year; however, it is important because it provides more timely evidence at the ICFR opinion’s as of date.	No change, consistent with AS 5.
176A	TN	46	In regard to ¶46, we suggest that a “sufficient period of time” should be a minimum of six months, similar to the requirements for SOC 1 Type 2 reports.	No change

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177	TIC	A79; AU-C 330.A36; Audit Risk Guide	<p>Paragraph A79—When the auditor is updating control testing from an interim date to the entity’s period end, paragraph A79 suggests that: <i>In some circumstances, such as when evaluation of [certain] factors indicates a low risk that the controls are no longer effective during the rollforward period, inquiry alone might be sufficient as a rollforward procedure.</i></p> <p>TIC noted that paragraph A79 is inconsistent with AU-C 330.A36 and AICPA Audit Guide, <i>Assessing and Responding to Audit Risk in a Financial Statement Audit</i> (the Guide) (paragraphs 3.114-3.115 and 6.22), which do not provide the same option to rely on inquiries alone as a rollforward procedure during the intervening period. As is, TIC believes confusion could occur as to whether the paragraph could be applied in the general risk assessment standards when performing a non-integrated audit. In addition, procedures for an integrated audit where the auditor will be opining on internal control over financial reporting should not appear to be more flexible than those for a nonintegrated audit. To resolve the inconsistency, TIC recommends that paragraph A79 of the ED should be repeated in AU-C 330.A36 and the AICPA Audit Guide, <i>Assessing and Responding to Audit Risk in a Financial Statement Audit</i></p>	No change, consistent with AS 5.
178	GT	50	We believe it would be helpful to clarify the auditor’s responsibility for continuing to perform testing, etc. in situations where a material weakness has been identified. In other words, management and/or the auditor should not cease performing procedures once it has been determined that the opinion will be modified, but should include any material weakness identified as a result of completing the necessary testing. The guidance could also include a reference to A113 with respect to scope limitations.	Added wording to A4.
179	BDO	51	We note that the concept of relevant principle has been incorporated into the standard to explain that in evaluating the five components of internal control the relevant principles are required to be present and functioning; ⁴ however, we note that in the section of the proposed SAS, <i>Determination of Whether Material Weaknesses Exist as of the Date Specified in Management’s Assertion About ICFR</i> , the concept of ‘relevant principle’ has not been carried forward. The 2013 COSO framework explains that ‘A major deficiency exists in the system of internal control when management determines that a component and one or more relevant principles are not present or functioning or	Revisions to references to principles makes this comment moot.

⁴ See Proposed SAS, paragraph 25.

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			<p>that components are not functioning together.’ For this reason we suggest revising the last sentence of paragraph 51 to include the concept of relevant principle as follows: In performing such evaluation, the auditor should determine whether deficiencies that affect the same significant class of transactions, account balance, or disclosure, relevant assertion, or component <u>and one or more relevant principles of ICFR</u> collectively result in a material weakness. Furthermore, if this suggested revision is made, a similar change would also be needed to other paragraphs that discuss the evaluation of deficiencies, such as paragraphs 54 and A90.</p>	
180	DT	51, 54, and A90; Appendix A par. 5a; and Appendix B AU-C Section 265 par. A10	<p>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) A90. 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</p>	See Summary of Comments, Q4

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			<p>relevant assertion, or component of ICFR, also may collectively result in a significant deficiency.</p> <p>Appendix A</p> <p>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.⁵ 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.</p> <p style="text-align: center;">Appendix B</p> <p>AU-C Section 265</p> <p>Communicating Internal Control Related Matters Identified in an Audit</p> <p>.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.</p>	

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181	EY	A87	<p>► We suggest the following revision to paragraph A87 to clarify the intent of the application guidance (i.e., a misstatement would be associated with an account balance or disclosure, not a class of transactions) and to align with the proposed changes to paragraph A84 of the proposed standard and paragraph A8 of AU-C Section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i>.</p> <p>Risk factors affect whether there is a reasonable possibility that a deficiency, or a combination of deficiencies, in ICFR will result in a misstatement of a class of transaction, an account balance or a disclosure.</p>	Changed
182	EY	A90	<p>► We suggest the control deficiency aggregation considerations addressed in paragraph A90 be expanded to include evaluating the combination of deficiencies identified at an individual component. As multiple deficiencies identified at a single component of such an entity may indicate a significant deficiency or a material weakness, we recommend the following revisions:</p> <p>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 disclosure, relevant assertion, <i>component of an entity</i>, 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 disclosure, relevant assertion, <i>component of an entity</i>, or component of ICFR also may collectively result in a significant deficiency.</p>	No change. Deficiencies at a component is a sampling issue, not an aggregation issue.
183	GAO	52	<p>Suggested edits to clarify that testing would only be performed for compensating controls that are effectively designed and implemented.</p> <p>52. The auditor should evaluate the effect of <u>effectively designed and implemented</u> compensating controls when determining</p>	No change. Par. 52 requires testing of the operating effectiveness of the compensating control.

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184	GAO	A91	A91. An <u>effectively designed and implemented</u> compensating control can limit the severity of a deficiency in ICFR...	No change. Concept in next sentence.
185	DT	<u>53</u>	<p>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:</p> <p>53. If the auditor determines that a deficiency, or a combination of deficiencies, in ICFR is not a material weakness, <u>might prevent</u> the auditor should consider whether prudent officials <u>in the conduct of their own affairs</u>, having knowledge of the same facts and circumstances, would likely reach the same conclusion <u>from concluding on the effectiveness of ICFR, then the auditor should treat the deficiency, or combination of deficiencies, as an indicator of a material weakness.</u></p>	Inserted “initially” before “determines”; amended AU-C 265 par. 10 accordingly.
186	EY	56-57	<p>We recommend moving paragraphs 56 and 57 after paragraph 50 under “Evaluating the Identified Deficiencies in ICFR” and revising former paragraph 56 as follows:</p> <p><i>In an audit of ICFR, In addition to evaluating the findings from the auditor’s testing of controls for the ICFR audit, the auditor <u>also</u> should evaluate the effect of the findings of the substantive procedures performed in the audit of financial statements on the effectiveness of ICFR. This evaluation should include, at a minimum</i></p> <ul style="list-style-type: none"> ▶ the risk assessments in connection with the selection and application of substantive procedures, especially those related to fraud. ▶ findings with respect to noncompliance with laws and regulations. ▶ findings with respect to related party transactions and complex or unusual transactions. 	Changed

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			<ul style="list-style-type: none"> ▶ indications of management bias in making accounting estimates and in selecting accounting principles. ▶ the extent of misstatements detected by substantive procedures. <p>As part of evaluating evidence obtained from all sources, the auditor should review reports issued during the year by the internal audit function (or similar functions) that address controls related to ICFR and evaluate deficiencies identified in those reports.</p> <p>We believe the procedures described in these paragraphs are performed in connection with the evaluation of an identified deficiency and whether that deficiency is a material weakness or a significant deficiency rather than when forming an opinion.</p>	
187	TN	58	For ¶58, we suggest adding a reference to Exhibit C ¶A152 in a application material paragraph.	Added
188	DT	60	We recommend that the requirement in paragraph 60e 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, <i>Written Representations</i> , 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) ..."	Changed.
189	KPMG	A96	Paragraph .A96 references to AU-C Section 580, <i>Written Representations</i> , for the required additional representations to be obtained for the financial statement portion of the integrated audit. As the representation in paragraph .60e is also included in AU-C Section 580.11a, we suggest deleting from the Proposed SAS as duplicative.	Changed.
190	KPMG	A98	We believe that paragraph .A98 should state why AU-C Section 265, <i>Communicated Internal Control Related Matters</i> , does not apply to an integrated audit and AU-C Section 265 should be amended to state that it does not apply to AU-C Section XXX, <i>An</i>	No change to explain why; added AU-C 265

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			<i>Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements.</i>	conforming amendment to reference this section instead of AT 501.
191	TN	A100	For ¶A100, we believe the “may be” guidance is inconsistent with the “should” requirement in ¶62.	Changed to wording taken from AU-C 265.A20.
192	DT	64	<p>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:</p> <p><u>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.</u></p>	Added.
193	KPMG	64	Paragraph .64 states that the communications required by the Proposed SAS (paragraphs .62-.66) should be made by the report release date, except for certain situations related to a governmental entity, in which case the communication should occur within 60 days of the report release date. Based on our experience, we do not believe that an exception is warranted for a governmental entity because the governmental entity’s acceptance and release of the practitioner’s report should not change the practitioner’s responsibility to date and provide the communication to management accordingly. Therefore we recommend deleting this sentence from	See above

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			paragraph .64. If the Board decides that such an accommodation is necessary, additional application guidance is necessary to describe the facts and circumstances that would give rise to such a delay.	
194	TN	65	For ¶65, we believe the requirement to communicate is too broad and should clarify that deficiencies identified as insignificant should be excluded from the requirement.	Changed
195	McG	65	<p>Paragraph 65 of the proposed SAS states that the auditor should communicate in writing to management all deficiencies (including those deficiencies that are not material weaknesses or significant deficiencies) identified during the integrated audit on a timely basis, but no later than 60 days following the report release date, and inform those charged with governance when such a communication was or is expected to be made. We support the proposed requirement that this communication of deficiencies be written.</p> <p>Although we agree that the form of communication of deficiencies should be written, we believe it is not appropriate to allow 60 days following the report release date for the written communication of deficiencies. One of the objectives of an audit of internal control over financial reporting that is integrated with an audit of financial statements is to communicate the auditor’s findings. We believe it is essential that management and those charged with governance know about, and have the opportunity to review, all control deficiencies, and the classification of those deficiencies, prior to the release of the auditor’s report.</p> <p>In the context of an audit of internal control over financial reporting, a control deficiency would not be clearly trivial. We believe that communicating all identified deficiencies prior to the release of the auditor’s report is similar in nature to the auditor’s responsibility to communicate all identified misstatements other than those that the auditor believes are clearly trivial as required by AU-C 450, <i>Evaluation of Misstatements Identified During the Audit</i>.</p> <p>Communication of deficiencies prior to the report release date provides an opportunity for dialogue among the auditor, management and those charged with governance regarding the identified deficiencies and the classification of those deficiencies prior to concluding on the effectiveness of internal control over financial reporting. The discussion of the evaluation of control deficiencies in an audit of internal control over financial reporting is similar to the discussion of the evaluation of uncorrected misstatements in an audit of financial statements. We believe this dialogue is an</p>	No change to timing.

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			essential component of both management’s process and the auditor’s process for reaching their respective conclusions regarding the effectiveness of internal controls over financial reporting, and as such, would recommend including a requirement for management to provide written representation that they have informed the auditors of all identified internal control deficiencies and that the identified deficiencies, individually and in the aggregate, do not rise to the level of significant deficiencies or material weaknesses. This would align with the requirement in a financial statement audit for management to represent that misstatements identified and aggregated during the audit are not material to the financial statements.	
196	KPMG	65	Paragraph .65 of the Proposed SAS requires that control deficiencies less than a material weakness and significant deficiency be communicated in writing to management, while paragraph .12a of AU-C Section 265 states that such deficiencies should be communicated in writing or orally (emphasis added). We believe that the method of communicating such control deficiencies should be consistent between the two standards. If the Board believes certain circumstances justify the difference, we recommend application guidance be added to the Proposed SAS.	Added application material to explain why.
197	KPMG	67	<p>Paragraph .67 (<i>Reporting on ICFR</i>) provides the required elements of the auditor’s report on ICFR. Similar to the Board’s approach in the Proposed Statements on Standards for Attestation Engagements (SSAE) and extant AT Section 9101.56-.58, we believe that guidance should be added regarding the reporting requirements if the ICFR audit is also performed in accordance with <i>Government Auditing Standards</i> (GAS). For example, the following guidance could be added to paragraph .67 (new content underscored):</p> <p>.67e.ii A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States.</p> <p><u>If the audit is also conducted in accordance with <i>Government Auditing Standards</i>, a statement that the audit was conducted in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States.</u></p>	Added – see par. 67a.

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			<p><u>.67x</u> If the audit is also conducted in accordance with <i>Government Auditing Standards</i>, and significant deficiencies in internal control over financial reporting are identified, the auditor should add the following other-matter paragraphs to the report:</p> <p style="padding-left: 40px;"><u>In accordance with <i>Government Auditing Standards</i>, we are required to report findings of significant deficiencies. 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. We consider the deficiencies in ABC Company’s internal control described below [or in the accompanying schedule of findings] to be significant deficiencies.</u></p> <p style="padding-left: 40px;"><u>ABC Company’s response to the findings identified in our examination is described below [or in the accompanying schedule of findings]. We did not examine ABC Company’s response and, accordingly, we express no opinion on the response.</u></p> <p>The Board should also consider adding footnotes to the example reports contained in Exhibit A to illustrate this additional guidance.</p>	
198	DT	68	<p>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:</p> <p>68. If the auditor issues a separate report on ICFR, the auditor should add the following paragraph <u>under an appropriate heading</u>, in an other-matter paragraph, in accordance with AU-C section 706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report</i> (AICPA, <i>Professional Standards</i>), to the auditor’s report on the financial statements: ...(Ref: par. A1043x-A105)</p> <p><u>A103x.</u><u>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.”</u> <u>When an other-matter paragraph, relating to the</u></p>	<p>Changed (different wording to address example of headings).</p>

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			<u>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."</u>	
199	TN	76, A111	We believe the explanatory material in ¶A111 should actually be moved to the requirement in ¶76 (i.e., the auditor should disclaim an opinion, rather than "would.>").	Changed
200	DT	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.	TF discussed theoretical basis of change and implications for other standards and concluded no change.
201	TN	81	For ¶81, we recommend that <i>Government Auditing Standards</i> (GAS) be added as a reference with PCAOB.	No change. This would be inconsistent with AU-C 600.
202	KPMG	81	Following the requirements of AU-C Section 600, <i>Special Considerations—Audits of Group Financial Statements</i> , paragraph .25a, we believe that paragraph .81 of the Proposed SAS should also require that the evaluation of the effectiveness of the component's ICFR be performed using the same internal control framework as the group ICFR audit. We believe that the use of the same framework is consistent with the concept of the use of the same financial reporting framework as required by AU-C Section 600.	No change; rare circumstance.
203	DT	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	Changed

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			<p>statements in accordance with the relevant requirements of GAAS (or, if applicable, the standards promulgated by the PCAOB).</p> <p>b. the component auditor has issued an auditor’s report on ICFR that is not restricted as to use. (Ref: par. A116-A117)</p>	
204	DT	A115	<p>We recommend modifying the paragraph as follows:</p> <p>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.</p>	No change.
205	KPMG	83-104	<p>Because the requirements contained in paragraphs .83 through .104 impact the auditor’s conclusion on the effectiveness of ICFR, we believe that they should be moved to before paragraph .55 (<i>Concluding Procedures</i>).</p>	Moved 83-85 to before par. 55
206	DT	A118-A119	<p>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:</p> <p><u>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</u></p>	Revised par. 119 to clarify.

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			<p><u>Containing Audited Financial Statements (AICPA, Professional Standards) adapted, and applied, as necessary to the audit of ICFR and take appropriate action. (Ref: par. A118)</u></p> <p>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, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> (AICPA, Professional Standards), may require the auditor to take additional action.</p> <p>A119. Delete in its entirety.</p>	
207	DT	A120	<p>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:</p> <p>A120. The following is an example of wording used to disclaim an opinion on such additional information:</p> <p style="padding-left: 40px;">Other Matter</p> <p style="padding-left: 40px;"><u>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 w</u>We do not express an opinion or any other form of assurance on [describe additional information, such as management’s cost-benefit statement].</p>	Changed
208	PwC	84	Par. 84: Delete the parenthetical reference to A121 at the end of this paragraph.	Changed

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209	TIC	84	Paragraph 84—TIC suggests removing the cross-reference to paragraph A121. It appears that the Board intended to delete this reference, since only paragraph A122 provides application guidance regarding paragraph 84.	Changed
210	PwC	85, A123	<p>The requirement in paragraph 85 addresses conditions that did not exist at the as of date but arose subsequent to that date and before the release of the auditor’s report, whereas the related application guidance in paragraph A123 discusses events subsequent to the date of the auditor’s report, which also pertain to facts that become known to the auditor after the report is issued. AU-C 560, <i>Subsequent Events and Subsequently Discovered Facts</i>, discusses separately the auditor’s responsibilities for subsequently discovered facts that become known to the auditor after the report release date. To clarify that this guidance also applies in the proposed SAS, we recommend creating a requirement in a new paragraph 86, as shown below:</p> <p>86. Although the auditor has no responsibility to keep informed of events subsequent to the date of the auditor’s report, the auditor should respond appropriately to facts that become known to the auditor after the release of the auditor’s report that, had they been known to the auditor at that date, might have affected the auditor’s opinion. (Ref: par. A123)</p> <p>The last sentence in paragraph A123 would remain in application guidance linked to paragraph 86.</p>	Changed
211	GT	85, A123	We believe this paragraph (or at least the first sentence thereof) should be moved out of application guidance and into the requirements since it provides a requirement related to the auditor’s responsibility if/when facts become known after the date of the auditor’s report.	Changed
212	DT	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:	Changed

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			<p>85. If the auditor obtains knowledge about conditions that did not exist at the as of date specified but ...</p>	
213	EY	A129	<p>► We suggest the following revisions to paragraph A129 to clarify the intent of the application guidance.</p> <p>The auditor may conclude it is appropriate to limit the assertion by excluding certain entities when, for example, law or regulation permits management to do so, or when management has insufficient time to assess the controls at the as of date for a recently acquired business or does not have sufficient access to a consolidated variable interest entity. However, in the case of an acquired entity, it would not be appropriate for management to limit its assertion if the period of such limitation extends beyond one year from the date of acquisition, nor would it be appropriate for management’s assertion to be limited for more than one annual management report on ICFR. Law or regulation may also specifically address situations in which it is appropriate for management to limit its assertion by excluding certain entities and also may require specific disclosures in these cases. If, in the auditor’s judgment, it is appropriate for management to limit its assertion by excluding certain entities, the auditor may limit the audit of ICFR in the same manner, and the auditor’s opinion would not be affected by a scope limitation.</p>	Changed
214	GT	A129	<p>For clarity, we recommend the first sentence be revised to read (suggested revision is underlined) “The audit may conclude it is appropriate <u>for management</u> to limit the assertion by excluding...” As currently written, it could be interpreted that it’s the auditor’s assertion and/or decision to limit such assertion by excluding certain entities.</p>	Changed
215	DT	A130	<p>We recommend the following modification to the paragraph as follows:</p> <p>A130. AU-C section 402, <i>Audit Considerations Relating to an Entity Using a Service Organization</i> (AICPA, <i>Professional Standards</i>), contains the requirements and application guidance for auditors of the financial statements of entities that use a service</p>	Deleted third sentence in its entirety.

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			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.	
216	DT	A148	<p><u>Layout</u></p> <p>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:</p> <p>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 <i>Internal Control — Integrated Framework (2013)</i> (COSO)</p>	Changed
217	DT	A148, par. 7	<p>We recommend modifying the paragraph as follows:</p> <p>"Management may evaluate and report on the effectiveness of the IDI's ICFR based on the report 2013 <i>Internal Control — Integrated Framework (2013)</i>, issued by Committee of Sponsoring Organizations of the Treadway Commission's (COSO)..."</p>	Changed
218	DT	A148, par. 8	<p>We recommend modifying the paragraph as follows:</p> <p>"... criteria established in the 2013 <i>Internal Control — Integrated Framework (2013)</i>, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ..."</p>	Changed

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219	NSAA	A149	Paragraph A149 – This paragraph provides proposed amendments to various sections in SAS No. 122. With regard to proposed amendments to AU-C Section 265, the proposed statement indicates there are no amendments to paragraphs 265.01-.06. However, we noted that extant AU-C 265.04 states that the “section is not applicable if auditor is engaged to report on the effectiveness of an entity’s internal control over financial reporting under AT section 501.” Since AT section 501 is expected to be withdrawn when the proposed SAS is issued as a final standard, we recommend the Board revise AU-C 265.04 accordingly.	Changed (this may be a conforming change, not an amendment).
220	McG	App. A	Paragraph 6 of Appendix A refers to an “explanatory paragraph.” So as to be consistent with the language in paragraph 68 and the illustrative reports in Exhibit A of the proposed SAS, we suggest changing “explanatory paragraph” to “other-matter paragraph.”	Changed
221	Akresh	App. A	I disagree with paragraph 7 requiring a restricted use paragraph. COSO is a well-known criterion for internal control. If the report and management’s assertion indicate the 17 principles as discussed above, readers will understand the auditor’s report. Further, the auditor is issuing an opinion. When the auditor issues an opinion, the report should be clear to typical readers and a restriction is not necessary. In addition, these reports are usually available to the public. Whenever a report is available to the public, a purpose of report paragraph is more appropriate than a restricted use paragraph (although neither is necessary in this situation). Appendix A would be clearer if it were written in the clarity format.	No change
222	PwC	App. B	Appendix B: In the conforming amendments to AU-C 265 change the second sentence of the first bullet point of paragraph .A11 as shown below to be consistent with the wording in par. A92 of the ED: A11. For the purpose of this indicator, the term ‘senior management’ includes the principal chief executive and financial officers as well as any other members of senior management who play a significant role in the entity’s financial reporting process.	Changed
223	Moss	App B	An amendment to AU-C Section 265 is proposed that would modify the existing term “material weakness” and add the terms “reasonably possible” and “probable”. These	Addition to Glossary will be

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			terms should be similarly modified and added, as applicable, to the AU-C Glossary. Furthermore, the terms “reasonably possible” and “probable” are defined in AU-C Section 935. (An amendment to AU-C Section 935 is proposed that would remove the definition of the term “remote”.) To avoid duplication of definitions, we encourage the ASB to amend AU-C Section 935 to refer to AU-C Section 265 or the AU-C Glossary for the definitions of “reasonably possible” and “probable”.	made as a conforming change. Definition of “reasonably possible” and “probable” are in a specific context in AU-C 935; no change.
224	PwC	App. B	Appendix B: In the conforming amendments to AU-C 935, <i>Compliance Audits</i> , paragraph .A41 we believe that the <i>Proposed Statement on Auditing Standards, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i> , should be added at paragraph .A41, “Appendix-AU-C Sections That Are Not Applicable to Compliance Audits.” We also believe that all paragraphs of the proposed SAS should be shown as not applicable to compliance audits.	Changed
225	EY	App B	We suggest references to “material class of transactions, account balance, and disclosure” in paragraphs 18 and A45 of AU-C Section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> , and paragraph 3 of AU-C Section 505, <i>External Confirmations</i> , be revised to “ <i>significant</i> class of transactions, account balance, and disclosure” to align with the terminology used in the proposed SAS, as well as other Statements on Auditing Standards.	No change
226	Moss	AU-C 200	The Proposed SAS would amend paragraph .A1 of AU-C Section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i> to add a sentence indicating that GAAS are to be adapted when applied to audits of internal control over financial reporting that are integrated with audits of financial statements, and that the Proposed SAS includes special considerations related to planning and performing an integrated audit. • First, this is also true of a compliance audit described in AU-C Section 935. We suggest paragraph .A1 of AU-C Section 200 be amended to indicate that GAAS are to be adapted as necessary in the circumstances of both an integrated audit and a compliance audit.	Changed to apply to other engagements conducted in accordance with GAAS
227	PwC	AU-C 265	Appendix B of the proposed SAS includes proposed amendments to various sections in SAS No. 122, <i>Statements on Auditing Standards: Clarification and Recodification</i> . The	Changed to remove the

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			<p>first sentence of the conforming amendment related to the definition of “material weakness” in AU-C 265.07 is proposed to be amended by adding the words “over financial reporting,” as shown below:</p> <p>.07 Material Weakness. A deficiency, or a combination of deficiencies, in internal control <i>over financial reporting</i>, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.</p> <p>To be consistent, we believe that the same change should also be made in the AU-C 265 definitions of “deficiency in internal control” and “significant deficiency.” Furthermore, there are many other instances throughout AU-C 265 where the phrase “over financial reporting” should be included. AU-C 315 defines internal control more broadly than just internal control over financial reporting as it includes internal controls related to operations and compliance with laws and regulations. AU-C 265, however, focuses on internal control deficiencies identified in the audit of the financial statements; therefore, the focus is on the internal controls related to financial reporting. As a result, we believe that the term internal control over financial reporting should be used in AU-C 265 instead of the term internal control.</p>	<p>proposed amendment. Although the wording would converge with AS 5, wording is superfluous given the existence of the words “financial statements” and conforming amendments within AU-C 265 would be extensive.</p>
228	DT	AU-C 265	<p>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:</p> <p>AU-C Section 265, Communication Internal Control Related Matters Identified in an Audit</p> <p>.07 ...</p> <p>Significant deficiency. A deficiency, or a combination of deficiencies, in internal control <i>over financial reporting</i> that is less severe than a material weakness yet important enough to merit attention by those charged with governance.</p>	<p>Changed</p>

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229	Moss	AU-C 935	The appendix to AU-C Section 935 that identifies AU-C sections that are not applicable to compliance audits should include AU-C Section 940 that will be added as a result of the Proposed SAS.	Changed
230	EY	Effective date	The proposed effective date is for integrated audits for periods ending on or after 15 December 2016. We believe the ASB should consider accelerating the effective date to 15 December 2015. The 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, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i> (PCAOB AS 5), which has been effective since 2007. Accordingly, it is our view that the profession requires a minimal transition period to implement the proposed SAS. While we believe the ASB should consider accelerating the effective date, we 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).	See Summary, Other Issue.
231	Hunter	Exhibit B	<p>—Illustrative Written Communication of Significant Deficiencies and Material Weaknesses</p> <p>According to paragraph 62, in making the written communication regarding all deficiencies and material weaknesses to management, the auditor should include those deficiencies that are not material weaknesses or significant deficiencies and identified them on a timely basis, but no later than 60 days of following the report release date. But, the auditor is not required to communicate those deficiencies that are not material weaknesses or significant deficiencies that were included in previous written communications, whether those communications were made by the auditor, internal auditors, or others within the organization.</p> <p>A100. Significant deficiencies and material weaknesses that previously were communicated and have not yet been remediated may be communicated, in writing, by referring to the previously issued written communication and the date of that communication</p>	No change. This would be inconsistent with the requirements of AU-C 265

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			<p>We disagree and believe that auditor <u>should include material weaknesses or significant deficiencies that were included in previous written communications</u>, at least, they should make sure that those material weaknesses or significant deficiencies have been remediated or corrected during the integrated audit. If some materials weaknesses or significant deficiencies are still uncorrected or not remediated, auditors must include every one of them in the written communication to management. It helps management notice and takes action to eliminate them and reduce audit risk of material weakness to minimum level.</p>	
232	Hunter	Exhibit C	<p>Exhibit C—Illustrative Management Report</p> <p>According paragraph 73, if the auditor determines that the required disclosure about one or more material weaknesses is not fairly presented in all material respects and one or more material weaknesses have not been included in management's report accompanying the auditor's report, the auditor's report should be modified to state that one or more material weaknesses have been identified but not included in management's report. Additionally, the auditor's report should include a description of each material weakness not included in management's report. The auditor's description should include specific information about the nature of each material weakness and its actual and potential effect on the presentation of the entity's financial statements issued during the existence of the weakness.</p> <p style="text-align: center;"><i>[Describe the material weaknesses that were identified during the integrated audit and provide an explanation of their potential effects. The auditor may separately identify those material weaknesses that exist as of the date specified in management's assertion about ICFR by referring to the auditor's report.]</i></p> <p>We disagree and believe the additional information of more material weaknesses that are not accompanying the auditor's report, should be modified to <u>state that the information and detail description of each material weakness in both management's reports and auditor's reports.</u> Management should have better knowledge of those material weakness is not fairly presented in all material respects that are not accompanying with auditor's report in management's report because it gives additional information of material weaknesses and have a clear perspective about</p>	<p>No change. This would be inconsistent with the requirements of AU-C 265</p>

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			auditor's decision that not reporting them as other material weaknesses that included in management's report.	
233	DT	Exhibit C	<p>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:</p> <p>The following is an illustrative management report, <u>applicable when no material weaknesses are reported</u>, containing the reporting elements described in paragraph 58 of this proposed SAS:</p> <p>We recommend including reference to "ABC Company" within the second paragraph of the Illustrative Management Report consistent with the first paragraph as follows:</p> <p>Management <u>of ABC Company</u> 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].</p> <p>We recommend modifying the footnote in order to align with changes proposed elsewhere in the comment letter as follows:</p> <p>For example, the following may be used to identify the criteria: "criteria established in the 2013 <i>Internal Control — Integrated Framework (2013)</i>, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).</p>	Changed
234	Hunter	Illustration 1	<p>Illustration 1 - Unmodified Opinion on ICFR</p> <p>According to 68, the auditor should add the following other-matter paragraph to the report on ICFR:</p> <p style="padding-left: 40px;">We also have audited, in accordance with auditing standards generally accepted in the United States of America, the [<i>identify financial statements</i>] of [<i>entity</i></p>	No change

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			<p><i>name]</i> and our report dated [<i>date of report, which should be the same as the date of the report on ICFR</i>] expressed [<i>include nature of opinion</i>]. (Ref: par. A104-A105)</p> <p>We agree with the inclusion of an other-matter paragraph on the report. We think it is important to highlight that the financial statements were audited. Expressing this provides more assurance to the opinion given. However, we believe that the <u>auditor's report on the financial statements should be named</u> for quick reference.</p>	
235	Hunter	Illustration 2	<p>Illustration 2 - Adverse Opinion on ICFR <i>Basis for Adverse Opinion</i></p> <p>A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The following material weakness has been identified and included in the accompanying [<i>title of management' report</i>].</p> <p>According to A109, the auditor's report need only refer to the "material weaknesses described in management's report" and need not include a description of each material weakness, provided each material weakness is included and fairly presented in all material respects in management's report, as described in paragraph 73.</p> <p>We disagree and believe that its <u>definition should be included</u> in this section as well because it is an important matter and needs to be emphasized on the basis for the adverse of opinion. The reader should not have to go to the management's report to look for the description of a material weakness.</p>	No change
236	Hunter	Illustration 3	<p>– Disclaimer of Opinion on ICFR</p> <p>In the auditor's responsibility section of the auditor's report, it should <u>add how important internal control of a company is and express that the auditor is not required to perform any additional work prior to issuing a disclaimer when the auditor concludes that the auditor will not be able to obtain sufficient appropriate audit evidence to express an opinion.</u></p>	No change. This would be inconsistent with the requirements of AU-C 700

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			<p>When the auditor disclaims an opinion but has concluded that one or more material weaknesses exist, the auditor's report should include the definition of the material weakness and disclose it. This should be <u>added under the section for the basis for disclaimer of opinion.</u></p> <p>A114 The auditor's report need only refer to the "material weakness described in management' report" and need not include a description of each material weakness, provided each material weakness is included and fairly presented in all material respects in management's report.</p> <p>We disagree and believe that its <u>definition should be included</u> in this section as well because it is an important matter and needs to be emphasized on the basis for the disclaimer of opinion.</p>	
237	Hunter	Illustration 4	<p>– Unmodified Opinion on ICFR Making Reference to a Component Auditor 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 group audit of the component auditor in the auditor report over the group financial statement should not be made unless the engagement partner determined that the component auditor has performed the audit of ICFR in accordance with relevant requirements of GAAS and the component auditor issue an auditor report that is not restrictive as to use.</p> <p>We agree with everything in the illustration provided in the unmodified opinion on ICFR making reference to a component auditor. But, when the group auditor relies on a component auditor to make an opinion, <u>they should add exactly on what they relied on in the other matters section of the independent auditor's report.</u> This is very important because the component auditor's audit of ICFR on certain procedures does not provide absolute assurance, only reasonable assurance. The group auditor should state how each of the process that was relied on from the component auditor and how that portion of the audit was out of their control.</p>	No change. This would be inconsistent with the requirements of AU-C 600

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238	Hunter	Illustration 5	<p>– Combined Report Expressing an Unmodified Opinion on ICFR and an Unmodified Opinion on the Financial Statements</p> <p>In the auditor’s responsibility paragraph we are proposing to add a sentence to clarify for the uninformed investors that there is no difference in level of assurance provided between an audit of internal control and an examination over internal control. In the third paragraph of the auditor’s responsibility, we propose that the following sentence should be added to the end:</p> <p style="text-align: center;"><u>“An audit of internal control provides no higher or lower level of assurance than the previously used term of the examination over internal control attest engagement for nonissuers.”</u></p> <p>This sentence should only be added for the first two years that the combined report is implemented. This change will clarify that the change in terms does not require a different level of assurance for the uninformed investor.</p> <p>Some might argue that the examination term should be used for consistency purposes. However, we disagree with this because use of the phrase audit of internal control eliminates any discrepancy between an examination of nonissuers and an audit of issuers.</p>	No change
239	DT	Illustrative report #5	<p>Report on the Financial Statements and Internal Control <u>Over Financial Reporting</u>¹</p> <p>...</p> <p>² For example, the following may be used to identify the criteria: "criteria established in the 2013 <i>Internal Control—Integrated Framework (2013)</i>, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."</p> <p><i>Auditor’s Responsibility</i></p> <p>...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</p>	<p>Changed</p> <p>Not changed – “IC relevant to the entity’s</p>

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			<p>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. ...</p> <p>...</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.</p> <p><i>Definition and Inherent Limitations of Internal Control Over Financial Reporting</i></p> <p>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 <i>[applicable financial reporting framework, such as accounting principles generally accepted in the United States of America]</i> accounting principles generally accepted in the United States of America. ...</p>	<p>preparation and fair presentation of the financial statements” conveys the same concept.</p> <p>Changed</p> <p>Not changed – lead-in to illustration states that GAAP is the applicable financial reporting framework.</p>
240	Moss	Illustrative reports	<p>In Illustration 2 for an adverse opinion on ICFR, the Adverse Opinion paragraph reads “In our opinion, because of the effect of the material weakness described in the Basis for Adverse Opinion paragraph on the achievement of the objectives of the criteria, ABC Company has not maintained effective internal control over financial reporting as of December 31, 20XX, based on [<i>identify criteria</i>].” [Bold emphasis added.]</p> <p>If the auditor identifies the criteria in the first sentence of the report using the word “criteria”, as in the footnote 2 example suggesting that reference to COSO could be accomplished with the words “criteria established in the 2013 <i>Internal Control—Integrated Framework</i> ...”, the phrase “the objectives of the criteria” in the preceding paragraph may be understood by readers. However, we believe this phrase will be confusing to readers when the auditor does not use the term “criteria” when referring to the control criteria. Although this report is only illustrative, we suggest the AICPA revisit</p>	<p>Changed to [<i>identify criteria</i>].”.</p>

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			<p>this wording in its illustration and consider whether the report would be understandable in the circumstance described above. At a minimum, we suggest the following changes: In our opinion, because of the effect of the material weakness described in the Basis for Adverse Opinion paragraph on the achievement of the objectives of the control criteria identified in the first paragraph of this report, ABC Company has not maintained effective internal control over financial reporting as of December 31, 20XX, based on [<i>identify criteria</i>].</p>	
241	DT	Illustrative reports	<p>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.</p> <p>We recommend that footnote 2 be revised as follows:</p> <p>For example, the following may be used to identify the criteria: "criteria established in the 2013 <i>Internal Control—Integrated Framework (2013)</i>, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."</p> <p>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, <i>Forming an Opinion and Reporting on Financial Statements</i>. (This recommendation does not apply to Illustration 2). The suggested edit is as follows:</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.</p> <p>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.</p>	<p>Changed.</p> <p>Changed</p>

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			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.	Changed
242	DT	Other	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.	See Summary, Other Issues.
243	TN	Various	Throughout the document "important" is used to describe controls (e.g., ¶A77). We suggest changing "important" to significant to be consistent, unless the meaning is intended to be different.	No change – "important" is also used in AU-C 265.
244	Moss	Various	Second, we recommend the references to the integrated audit be singular, such as: " <i>As discussed in paragraph .02, GAAS are written in the context of an audit of financial statements but are to be adapted as necessary in the circumstances when applied to an audits of internal control over financial reporting that is are integrated with an audits of financial statements...</i> "	changed
245	DT	Various	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 <i>Rules and Regulations Part 363 – Annual Independent Audits and Reporting Requirements</i> . 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.	Changed, as well as references to "evaluation" performed by management.

Editorial Comments

A10 Par. A10: Add a period at the end of this paragraph.	done
<p><u>Paragraph 30</u></p> <p>We recommend eliminating the “and/” from “and/or” in the first bulleted item within this paragraph as it is not necessary. We suggest the following modification:</p> <p>30 The entity selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.</p>	done
Par. A47: We suggest adding a semicolon after the first bullet point in this paragraph to be consistent with the presentation of the other bullet points.	done
Par. A87: In the first bullet point of this paragraph, delete the comma following “financial statement”	No change

Paragraph 55: We recommend making this paragraph a bulleted list in order to assist in readability and understandability as follows: done

55 The auditor should form an opinion on the effectiveness of ICFR by evaluating evidence obtained from all sources including:

- the auditor's testing of controls for the ICFR audit;
- any additional tests of controls performed to achieve the objective related to expressing an opinion on the financial statements;
- misstatements detected during the financial statement audit, and
- any identified deficiencies.

<p><u>Paragraph 56</u></p> <p>We identified that there is a period included at the end of each bulleted item which is inconsistent with the format of the rest of the proposed SAS. We recommend removing the periods and inserting an “and” into the listing at the end of the penultimate bullet as all bulleted items should be considered. We suggest the following modification:</p> <p>56 In an audit of ICFR, the auditor should evaluate the effect of the findings of the substantive procedures performed in the audit of financial statements on the effectiveness of ICFR. This evaluation should include, at a minimum:</p> <ul style="list-style-type: none"> • the risk assessments in connection with the selection and application of substantive procedures, especially those related to fraud; • findings with respect to noncompliance with laws and regulations; • findings with respect to related party transactions and complex or unusual transactions; • indications of management bias in making accounting estimates and in selecting accounting principles; and • the extent of misstatements detected by substantive procedures. 	done
<p>Par. 60: Correct the alignment of subparagraphs (a)-(i).</p>	done

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<p><u>Paragraph 72</u></p> <p>We identified that there is a period included within the first bulleted item which is inconsistent with the rest of the proposed SAS. We recommend removing the period and inserting an “and” into the penultimate bullet as all bulleted items should be considered. We suggest the following modification:</p> <p>72 When ICFR is not effective because one or more material weaknesses exist, the auditor's report should include:</p> <ul style="list-style-type: none"> • the definition of a material weakness- and • a statement that one or more material weaknesses have been identified and an identification of the material weaknesses described in management's assertion about ICFR. (Ref: par. A109) 	done
<p><u>Paragraph 84</u></p> <p>We identified a typo whereby the referenced application material paragraph is listed twice. We recommend striking the repetitive reference.</p>	done
<p><u>Illustration 3</u></p> <p>We recommend formatting the “Material Weakness” subtitle in bold text in order to be consistent with the other subtitles in the Illustration.</p>	done
<p>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</p>	done

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on ICFR and an Unmodified Opinion on the Financial Statements (under the heading "Definition and Inherent Limitations of Internal Control Over Financial Reporting").	
Appendix A: Align footnote 3 to paragraph 3 with other footnotes in this section.	aligned
Appendix B: In the conforming amendments to AU-C 905, <i>Alert That Restricts the Use of the Auditor's Written Communication</i> , delete the extraneous character and add a space preceding "Alert" in the title. Also, align the subparagraphs in paragraph 11.	done
Par. A108: In footnote 30 to this paragraph, change "example 2" to "illustration 2" to conform to the wording in exhibit A. Par. A112: In footnote 31 to this paragraph, change "example 3" to "illustration 3" to conform to the wording in exhibit A. Par. A117: In footnote 34 to this paragraph, change "example 4" to "illustration 4" to conform to the wording in exhibit A.	Done