



Agenda Item 3

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

Objective of Agenda Item

To discuss suggested revisions to proposed SAS, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*, and to vote to ballot for issuance as a final standard

Task Force Members

Task Force members are:

- Don Pallais, Chair
- Sally Ann Bailey
- Mark Chapin
- Marne Doman
- Jen Haskell
- Susan Jones
- Mike Fleming
- Nicole Burkhart/Grant Simmons
- Mike Santay

Summary of May discussion and changes made

The ASB discussed the following issues and did not direct the Task Force to make any changes:

- Clarifying whether an integrated audit can be performed by two different auditors. The FDICIA requires only one auditor.
- Adding a description of inherent limitations of ICFR to the auditor's report.
- Adding the concept of timeliness to the definition of detective control.
- The use of the phrase "provide no assurance" in paragraph A126. This phrase is used in the illustrations in AU-C section 730, *Required Supplementary Information*.
- Identifying, aggregating and communicating deficiencies in an equity method investee in an audit of ICFR.
- Changing the phrase "management's assessment about ICFR" to "management's assessment about the effectiveness of ICFR"; however, the term "Management's assessment about ICFR" is defined as management's conclusion about the effectiveness of ICFR.

The ASB discussed the use of significant as compared to material, and directed staff to consider a project to address the consistency of the use of these terms within GAAS.

The ASB directed the task force to make the following revisions:

Par (May)	Par (July).	Text
1	1	Deleted " when, and" from phrase "when and only when "
2	2	Deleted "planning and" from phrase "planning and performing."
4a	4a	Deleted "thereby enabling the auditor to express an opinion on whether effective ICFR was maintained, in all material respects, based on the criteria;" and inserted "and if so, whether all have been identified;". Management's assessment about ICFR is defined as management's conclusion about the effectiveness of ICFR, so no change was made to the defined term.
4b	4b	"report on ICFR, and communicate" changed to "express an opinion on the effectiveness of ICFR in a written report and, and communicate with management and those charged with governance"; "GAAS, in accordance with" changed to "this section, based on".
	A15	Added new application paragraph addressing availability of criteria
A14a	A17	"for purposes of this proposed standard, the auditor is concerned only with ICFR" changed to "this proposed standard is focused only on ICFR"
9	8	Revised to be more consistent with wording in clarified attest standards, but retained the word "assessment" for consistency within this proposed standard. "obtain a written assessment from management" changed to "request from management a written assessment"; deleted "If management imposes a scope limitation by refusing and inserted "Management's refusal"; deleted "despite its initial agreement to do so" and inserted "represents a scope limitation and"
20, A27	18, A26	Moved up from after following paragraph
25	23	Deleted "The auditor is required to obtain an understanding of internal control relevant to the audit"
A40	A44	Deleted "whether" from each bullet
31	24	Last bullet, deleted "including disclosures"

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A60, A70, A72	A63, A73, A75	Deleted “recalculation”
A68	A71	Added “the frequency of operation of the control, whether the control is an IT application control,” and bulleted the list.
A69	A72	Deleted “The absence of misstatements detected by substantive procedures, however, informs the auditor’s risk assessments in determining the testing necessary to conclude on the operating effectiveness of a control.”
A72	A75	Inserted “the application of” before “specific controls”
NA	A87	Inserted new paragraph to provide guidance on the importance of considering findings from both audits
50a, 50b	53, 54	Moved back to follow par. 52; order of paragraphs reversed to be more consistent with par. 52.
A94a, A94c	NA	Deleted
64	61	Moved “the auditor is not required to make the written communications by the report release date” to the end of the sentence.
65	62	Changed “material weaknesses, significant deficiencies and other deficiencies that, in the auditor’s professional judgment, are of sufficient importance to merit management’s attention” to “all deficiencies”, to indicate that once a deficiency is identified as such, the concept of “trivial” is not applicable.
A102a	A109	Deleted “, in the auditor’s professional judgment, are of sufficient importance to merit management’s attention but”
A103	NA	Deleted since it only referred to another paragraph; the paragraph referencing in par. 64 to A103 and A110, and the paragraph sequencing of A103 and A110, was problematic
67a	A110	Moved from requirement to application material
A103a	A111	Reversed order of sentences in paragraph
A105 A110	A113, A118	Changed forward reference in A113 to backwards reference in A118. Note that A118 repeats A113.
A111	A119	Inserted “ in determining whether to accept, or in performing, the financial statement audit”
82, A119	80	Revised requirement paragraph to incorporate application material
A118	A127	Revised A118 and moved below
A120	A126	Changed “were not engaged to” to “did not”
App A	App A	Moved to Exhibit D; App B renumbered
A151	A151	AU-C 200, A1: deleted last sentence

A151	A151	AU-C 256, definition of material weakness: inserted “over financial reporting”; added definitions of deficiency and significant deficiency and inserted “over financial reporting” in those as well.
Exhibit C	Exhibit C	Inserted description of the inherent limitations of ICFR, using wording from definition of ICFR in paragraph 5.

Task Force Comments on Revisions

- The ASB directed that the objective of the proposed standard include the phrase “and if so, whether all [material weaknesses] have been identified.” This phrase is not included in AS 5.
- The Task Force was asked to consider whether to move par. 50b to application material. No change was made to par. 50b other than moving it to follow par. 52, to remain consistent with AS 5.

Agenda Items Presented

Item 3A – Proposed SAS, clean

Item 3B – Proposed SAS, marked from May 2015 draft