

GEORGIA SOCIETY OF CPAs
 ANNUAL CONVENTION
 JUNE 15, 2010

**AUDIT, REVIEW AND COMPILATION UPDATE
 NOT JUST MORE TO DO, MORE PRODUCTS TOO**

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AUDIT, REVIEW AND COMPILATION UPDATE

Topics to be Covered

- **Audit Update**
- **Compilation and Review Update**
- **What's Coming**

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AUDIT UPDATE

New Audit Standards

- **SAS 115 – Communication of Internal Control Matters**
 - SAS 115 replaces SAS 112 of the same title, effective for audits for periods ending after 12-15-2009

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Defines material weakness as –

A deficiency in internal control that creates a ***reasonable possibility*** that a ***material misstatement*** would not be prevented or detected on a timely basis

- “reasonable possibility” was previously “more than remotely likely”

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Defines significant deficiency as –

A deficiency that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance

- Previously “more than remotely likely” to cause an error that was “more than inconsequential”

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Includes four indicators of material weaknesses
 - Identification of fraud
 - Restatement of previously issued financial statements
 - Identification by auditor of material misstatement
 - Ineffective oversight by Governance

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Retains other provisions of SAS 112
 - Requires consideration of deficiencies in *design and operation* of internal control
 - Includes a list of “circumstances” that may be deficiencies
 - Requires evaluation of each control deficiency identified in the audit
 - Retains guidance on form of written communication
 - Cannot issue a “no significant deficiency” letter

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Practical application
 - Document consideration of deficiencies in all 5 components of internal control
 - Practice aids cover Understanding, the auditor has to add consideration of internal control deficiencies

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Practical application
 - Carefully consider *design* of the entity's accounting system for all significant accounts, including revenues
 - Familiarity breeds acceptance
 - Separate communication of fraud risk from internal control risk
 - › Reconciling bank accounts is good internal control, even if duty not separated so that a fraud risk exists

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Practical application
 - Document consideration of deficiencies associated with audit adjustments
 - Could the client prepare the adjustment using auditor for "routine accounting assistance"

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AUDIT UPDATE

New Audit Standards

- **SAS 115**
 - Practical application
 - Communication has to be in writing, but does not have to be formal
 - "Material Weakness – Management is not able to prepare GAAP financial statements that include all the required disclosures"
 - "Significant deficiency – The lack of segregation of duties increases the risk of theft"

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AUDIT UPDATE

New Audit Standards SAS 115 Practical application

Management and Governance are the same, condense boilerplate letter to ...

As stated in our arrangement letter, Auditing Standards require us to communicate to Management control deficiencies that we noted during our audit, and to classify them according to significance. A control deficiency exists when financial statement misstatements will not be prevented or detected on a timely basis. A Material Weakness is one that is reasonably possible to result in an error that is material. A Significant Deficiency is one that we believe should be brought to the attention of governance. During the audit we noted the following matters:

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AUDIT UPDATE

New Audit Standards

- **SAS 116 –Audits of Interim Financial Information (non-issuers)**
- **Effective for reviews of interim periods beginning after 12-15-2009, with earlier application permitted**

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AUDIT UPDATE

New Audit Standards

- **SAS 116 – Applies to reviews of interim financials when latest year-end financials are audited**
 - **Interim financials must be on same basis of accounting as year-end financials**
 - **If not on same basis, SSARS would apply**
 - **Precludes accountant from performing a review under the SSARS**
 - **Necessary because the SSARS do not require an understanding of internal controls but the SASs do**

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AUDIT UPDATE

New Audit Standards

- **SAS 116**
 - **Financials may be complete or condensed**
 - **Condensed financials subject to FASB ASC *Interim Reporting* requirements**

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AUDIT UPDATE

New Audit Standards

- **SAS 116**
 - Does not require the accountant to issue a report if the client does not state the information has been reviewed or make reference to the accountant's association with the information
 - SAS 116 does not extend to compilations of interim financial statements where a year-end audit is performed

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AUDIT UPDATE

New Audit Standards

- **SAS 116**
 - Performance requirements consider audit of year-end financials, and add –
 - Document understanding of engagement in written communication with client
 - Assess management's ability to establish and maintain controls over interim financial reporting

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AUDIT UPDATE

New Audit Standards

- **SAS 116**
 - Performance requirements
 - Inquiry and analytical review (similar to SSARS)
 - Obtain written management representations
 - Communications with management and Governance regarding internal control deficiencies
 - Others

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AUDIT UPDATE

New Audit Standards

- **SAS 117 – Compliance Audits**
 - Applies to auditing compliance with government grants, programs, etc
 - Not applicable to financial statement audits

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AUDIT UPDATE

New Audit Standards

- **SAS 117 – Compliance Audits**
 - Response to compliance audit deficiencies noted in federal study of the quality of A-133 audits (aka President's Council on Integrity and Efficiency)
 - Documentation
 - Internal control testing
 - Sampling

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AUDIT UPDATE

New Audit Standards

- **SAS 117 – Compliance Audits**
 - Supersedes SAS 74 of similar name
 - While changes are not substantial, they are important
 - Effective for compliance audits for periods ending June 15, 2010, with early application permitted
 - Practical application
 - If you do HUD or A-133 work, take a course

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AUDIT UPDATE

New Audit Standards

- **SAS 118 – Other Information in Documents Containing Audited Financial Statements**
- Part of Clarification standards (effective for audits of periods beginning after 12/15/2010)
- No significant changes to existing standards
 - Emphasizes dealing with inconsistencies and differences

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AUDIT UPDATE

New Audit Standards

- **SAS 119 – Supplementary Information in Relation to Financial Statements as a Whole**
- Part of Clarification standards (effective audits of periods beginning after 12/15/2010)
- No significant changes to existing standards
 - Adds list of procedures to perform on supplementary info
 - Adds management representations specific to supplementary info

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AUDIT UPDATE

New Audit Standards

- **SAS 120 – Required Supplementary Information**
- Part of Clarification standards (effective audits of periods beginning after 12/15/2010)
- No significant changes to existing standards
 - Mimics SAS 119 “Adds ...”

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AUDIT UPDATE

Other Recent Audit Pronouncements

- **SSAE No. 15 – Examination of an Entity’s Internal Control ...**
 - Supersedes SAS (AT 501) with same purpose, effective 12/31/2008
 - Performed in connection with an audit
 - Closely follows audit risk assessment standards in approach

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AUDIT UPDATE

Other Recent Audit Pronouncements

- **SSAE No. 15**
 - Converges GAAS with PCAOB Auditing Standard No. 5, applicable to public companies
 - Directs that a “top down” approach be used
 - Start at financial statement level
 - Work down to significant accounts and disclosures

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AUDIT UPDATE

Other Recent Audit Pronouncements

- **SSAE No. 15**
 - “Top down” approach
 - Focus on accounts and disclosures that are assessed as having a reasonable possibility of material misstatement
 - Select controls for testing that address the risk of misstatement at each relevant assertion
 - Report provides opinion on the design and operation of internal controls

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AUDIT UPDATE

Independence Changes

- Interpretations and amendments to details, but no new matters of substance
- AICPA Ethics has issued a Guide for Complying with Independence Rules 102–505
 - Establishes a framework that calls for –
 - Identification of Threats to independence
 - Evaluation of the significance of the Threat
 - Identification and application of Safeguards to Threats

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 17 – Omnibus SSARS**
 - Conforming and other changes
 - “non-issuer” replaces “nonpublic entity”
 - Defines “management” and “governance” as per SASs

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 17 – Omnibus SSARS**
 - Conforming and other changes
 - Re-defines “third parties” to clarify that “Those who are knowledgeable about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of financial statements” applies to members of management
 - eg, might make VP of Sales a “third party”

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 17 – Omnibus SSARS**
 - **Conforming and other changes**
 - Clarifies objectives and limitations of compilation and review engagements
 - Changes form of management representation letter, and clarifies that accountant does not need to have physical receipt of letter as the review date

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 17 – Omnibus SSARS**
 - **Adds guidance on going concern to SSARS literature**
 - Requires actions if information comes to accountant's attention that raises questions about the ability of entity to continue as a going concern
 - Inquiry of management
 - Disclosure in financials
 - Report modification for lack of disclosure
 - Emphasis paragraph in report is optional

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 17 – Omnibus SSARS**
 - **Adds guidance on subsequent events to SSARS literature**
 - Previously referred to audit literature for guidance
 - Similar to going concern process
 - Accounting is superseded by FASB standard

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 17 – Omnibus SSARS**
 - Adds Exhibit on analytical procedures
 - No new requirements, just illustrative documentation
 - Reiterates that forming expectation is integral phase of performing and documenting analytical procedures

“An accountant cannot, under any circumstances, perform analytical procedures without first developing expectations ...”

- Includes examples of documentation

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 18 –**
 - Removes review of interim financial statements where accountant audits the year-end financials from SSARS literature
 - See SAS 116 for audit side of this SSARS

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 19 – Compilation and Review Engagements**
 - “Most significant changes to compilation and review standards since 1978”
 - Requires written communication of engagement understanding
 - Enhances documentation requirements
 - ARS Committee backed off on changing “limited assurance” to “moderate assurance”

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 19**
 - Removes prohibition against disclosing reason for lack of independence in accountant's compilation report
 - Provides opportunity to market "CFO services" without impairing value of compilation services to users
 - Re-codifies the SSARS, and separates compilation standards from review standards

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **SSARS 19**
 - Adds discussion of materiality in review engagement
 - Adds discussion re tailoring review procedures based on understanding of industry, client and "awareness" of risk of material misstatement of financials

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **Interp No 30 provides guidance in reporting on reviews and compilations of financials prepared using International Financial Reporting Standards**
 - Also provides guidance when performing compilations and reviews using International Standards

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COMPILATION AND REVIEW UPDATE

New SSARS Standards

- **Interp No 31 – Preparation of Financial Statements for Use by an Entity's Auditors**
 - Says an entity's auditor is not a third party
 - In effect, permits accountant to compile such financials using SSARS 8

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COMPILATION AND REVIEW UPDATE

Other Services in Addition to the Above

- **SSARS 13 – Compilation of specified elements, accounts or items of financial statements**
 - eg, inventory or accounts receivable information for a lender
- **SSARS 14 – Compilation of pro forma financial statements**
 - eg, in connection with a request for a loan to buy equipment, a building, or another business

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WHAT'S COMING

Auditing

- **Clarity Project – Rewriting GAAS**
 - Provide objectives for each standard in a conceptual framework for the application of professional judgment
 - Make standards easier to read and understand
 - Include special considerations for audits of small entities

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WHAT'S COMING

Auditing

- **Clarity Project – Rewriting GAAS**
 - Numerous Clarity Project standards in late exposure draft stage
 - Expected to have common effective date, currently periods beginning after 12/15/2010, but considering a later date

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WHAT'S COMING

Reviews and Compilations

- **SSARS Clarity project**
 - Undertaken to improve language, consistency with other standards
 - SSARS 16 is first step of “Clarity” project
 - ARS Committee is considering whether to use format used by International Auditing and Assurance Standards Board for their review standards
 - IAASB format has been adopted by the Auditing Standards Board

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WHAT'S COMING

Reviews and Compilations

- **ARS Committee is assisting in the development of an AICPA Practice Aid for bookkeeping engagements**
 - Would not establish standards, but ...

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WHAT'S COMING

Other

- **FASB**
 - Convergence with International Accounting Standards is creating new incentives for "Little GAAP"
- **Independence**
 - Federal agencies interested in different independence standards than AICPA

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WHAT'S COMING

Other

- **PCAOB**
 - Continues to set standards independently of AICPA
 - eg, see recent PCAOB risk assessment standards
 - Issue is whether financial statement users will accept GAAS audits if PCAOB standards perceived as "better"

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In Conclusion -

- Use the AICPA Resources Center
<http://www.aicpa.org/Professional+Resources/>
and join and participate in a Center
- Check out the AICPA Small Firm website
<http://www.aicpa.org/Professional+Resources/Publish+Accounting+Firm+Resources/Small+Firm+Corner/>

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In Conclusion -
Questions???
Bon-Audit Petite!!!

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