
 FRAZIER & DEETER

Presentation to the Georgia
Society of CPAs

The New Audit Risk Standards –
One Year Later


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Overview

- Brief recap of the standards
- Development and implementation of F&D methodology
- Adoption of SAS 103 & 112
- Adoption of Risk Standards
- First year expectations
- First year experiences
- Keys to success

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Recap of Standards

- "Surrounding Standards"
 - SAS No. 102, *Defining Professional Requirements*
 - SAS No. 103, *Audit documentation*
 - SAS No. 112, *Revision to SAS No. 60, Communication*
 - All effective for audit periods ending on or after December 15, 2006
- "Risk Suite" (Suite of 8 related standards)
 - SAS No.'s 104 – 111
 - Effective for audit periods beginning on or after December 15, 2006

 PROFESSIONAL SOCIETY OF ACCOUNTANTS **Recap of Standards**


Primary Objectives:

- Requires a more robust understanding of entity and its environment, including internal control, in order to properly identify and assess risks of material misstatement.
- Perform risk assessment on all audits
- **Default to maximum for control risk no longer allowed**
- Emphasizes the importance of the entity's risk management process


 PROFESSIONAL SOCIETY OF ACCOUNTANTS **Recap of Standards**

What does this mean for our day-to-day auditing procedures?


- Auditors must demonstrate that they have “thought about” audit risk first, then build it into the audit plan
- Generally, required the use of the 5 COSO elements in assessing risk
- The biggest impact is on the planning phase on the audit but impact can be felt in fieldwork and reporting

 PROFESSIONAL SOCIETY OF ACCOUNTANTS **F&D Methodology**


- During summer of 2006, we decided to develop our own methodology
- We felt we had outgrown the effectiveness of the PPC methodology
- We wanted to fully implement Caseware and Caseview
- After two years at the PCAOB, I felt we could design a more effective and efficient audit

 **F&D Methodology**

- Implementation was not the most fun I had in my career
- We wrote our own Caseware and Caseview templates, including putting the financial statements into a Caseview format
- Buy-in from staff was considered the most critical element to success
- Invested over 40 hours of in-house training to the entire audit department


 **SAS 103 & 112**

The first year of SAS 103 and 112

 **SAS 103 & 112**

The first year of SAS 103 and 112


WHAT FUN!

 SAS 103 & 112


The first year of SAS 103 and 112

WHAT FUN!


NOT!!

 Risk Standards


- Assembled a “methodology team” in summer of 2007
- Sent key managers to NATTS and other AICPA training for the risk standards
- Created a program for managing the change to capture the new risk standards and improve on last year’s adoption of F&D methodology

 Risk Standards


- Conducted training in 3 stages –
 - Two-day session for the new standards
 - One-day session for new methodology
 - One-day session for lessons learned from planning and early implementers
- Created a methodology handbook that tried to address performance issues

 PROF. DR. G. G. G. G. G. **Expectations**


Does everyone remember the anxiety?

 PROF. DR. G. G. G. G. G. **Expectations**


- Fear of huge cost increases...

 PROF. DR. G. G. G. G. G. **Expectations**


- Fear of huge cost increases...
- Fear of unrecoverable time charges...

 PROFESSIONAL SERVICES **Expectations**


- Fear of huge cost increases...
- Fear of unrecoverable time charges...
- Fear of competition finding a more efficient way of adopting the new standards...

 PROFESSIONAL SERVICES **Expectations**


- Managed expectations with clients
- Managed expectation with partners
- Managed expectations with staff

 PROFESSIONAL SERVICES **Experiences**


- Planning ran about 50% more time than prior year
- A lot of early confusion about how to document risk assessments, perform walkthroughs and assess control design
- Worry about the impact of significant risk assessments
- But...

 PROGRESS PARTNERS Experiences


- Partners were far more involved in planning
- Linkage to planned responses were well documented in the planning, not an after thought
- Client input created opportunities for efficiencies and better effectiveness
- Realization that less work needed to be done in low risk areas

 PROGRESS PARTNERS Experiences

- Our audit programs were truly tailored for the staff to perform their work
- Review was more efficient
- Partners had a better understanding of risks and responses
- Clients were better informed

 PROGRESS PARTNERS Keys to Success

- Long-range planning combined with strong tactical execution during the adoption phase
- Investments – training, people, pilot runs
- Commitment from the top
- Buy-in from the ground-up
- And lastly...

 PROACTIVE COMMUNICATION **Keys to Success**

Proactive communication

 PROACTIVE COMMUNICATION **Questions?**

Questions ?
