



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Presentation to the North Atlanta Chapter

The New Audit Risk Standards – One Year Later

Bill Godshall
Frazier & Deeter
(404) 253 7500

March 2008



- 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



- “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



Primary Objectives:

- Requires a more robust understanding of entity and it's 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



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



- 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



- 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



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

SAS 103 & 112

The first year of SAS 103 and 112



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

SAS 103 & 112

The first year of SAS 103 and 112

WHAT FUN!



The first year of SAS 103 and 112

WHAT FUN!

NOT!!



- 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



- 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



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Expectations

Does everyone remember the anxiety?



- Fear of huge cost increases...



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



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



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



- 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...



- 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



Phase 1 IPP

Phase 2 RAPP

Phase 3 FPP

Prepare planning PBC request	Evaluate and document client-prepared forms from planning PBC	Conduct brainstorming session
Roll-forward Caseware file	Evaluate and document SAS 99 responses	Complete PL.8 and PL.14
Prepare initial budget	Perform and document walk-through procedures	Finalize planning materiality, budget and other planning forms
Prepare client acceptance/continuance	Prepare preliminary materiality calculations	Tailor audit programs
Issue engagement letter	Perform and document planning analytical procedures	Consider sending legal letters
Roll-forward PY IC.1 to CY PL.7	Read BOD minutes	Consider sending confirmations if testing at interim
Prepare and issue SAS 99 requests	Begin PL.8 as applicable	
manager/senior responsibility	Staff, senior and manager responsibility with partner involvement	Partner involvement with manager and senior time



- 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



- 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...



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Keys to Success

Proactive communication



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Questions?

Questions ?