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9:30-10:20am	<p><a href="#"><u>Considerations in Planning and Managing a Financial Statement Audit .....</u></a> 1</p> <p>Richard G. Edsall, CPA, CFE, MBA Boca Raton</p>
10:50 am-12:30pm	<p><a href="#"><u>SAS Update .....</u></a> 19</p> <p>Richard G. Edsall, CPA, CFE, MBA Boca Raton</p>

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***Considerations in Planning  
and Managing a  
Financial Statement Audit***

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*Richard G. Edsall, CPA, CFE, MBA*

## **Richard G. Edsall, CPA, CFE, MBA**

Richard G. Edsall is a CPA with over twenty-five years of professional experience in Florida. He is currently a member and past chairman of the FICPA's Committee on Accounting Principles and Auditing Standards.

His public accounting experience includes supervisory positions in three offices of a "Big Four" firm and managing the audit practice of a Florida affiliate of another national firm. In addition to audit, he has an extensive consulting background and has been designated as a certified fraud examiner (CFE) by the Association of Certified Fraud Examiners (ACFE).

Richard also has substantial private industry experience, including management positions with Bank of America and BFGoodrich. He assisted both entities with mergers and the implementation of new accounting systems.

Richard received a BS in Accounting from Lehigh University and an MBA (concentrating in finance and information systems) from Lehigh. While pursuing his MBA, he instructed undergraduate courses in financial accounting, managerial accounting and information systems.

Richard has prepared and instructed continuing professional education courses for numerous CPA firms.

# **CONSIDERATIONS IN PLANNING AND MANAGING A FINANCIAL STATEMENT AUDIT**

**Richard G. Edsall, CPA, CFE, MBA**

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## **Scope of Presentation:**

- Not intended to be an “all-encompassing” list of what you do in an audit.
- Reminder of things to look out for, or consider.
- Planning and management are interrelated.
- Intended for those that do audits and those that work with auditors.
- Audits of publicly-held companies are governed by the PCAOB, which has some requirements that are more stringent.

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## **PLANNING**

- Planning is the key to financial success.
- This is very much the case in an audit environment.
- Don't just "jump right in."
- There are required steps both before and after the engagement is obtained.

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## **WE HAVE GONE "FULL CIRCLE" IN THE PLANNING PROCESS**

- Originally a top-down approach similar to risk assessment.
- Later went to virtually all substantive approach in many cases.
- Came "back" to risk assessment approach in 2006 with SAS 102 and the remainder of the "risk assessment suite" of SAS's.
- SAS's are constantly "evolving".

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### **WHO IS INVOLVED IN ALL OF THIS?**

- Starts with partner obtaining the client.
- Partner heavily involved initially.
- More involvement of manager and then senior/staff as engagement progresses.
- Engagement partner signs report and other related client communications.

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### **FIRST CONSIDERATION – CAN WE DO THIS?**

- Do we have the expertise?
- Do we have the manpower?
- Do we have the expertise and manpower at the right levels?
- If not, can we joint venture or outsource any of it with other firm(s) or individual(s)?

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### **NEXT CONSIDERATION – DO WE WANT TO DO THIS?**

- Talk to prior auditor.
- Investigate what the problems were.
- Find out whether and when they were paid.
- When did they do the work (time of year – although this may or may not be apparent from report date).

7

### **DEVELOP A REASONABLE, ATTAINABLE AND ACCEPTABLE FEE ESTIMATE**

- Develop a reasonable budget.
- Budget should include staff level assignments and time estimates by area.
- Translate budget into fee estimate.
- Decide upon point estimate, range estimate or no fee quoted.
- Review fee arrangement with the client.

8

### **GET A SIGNED ENGAGEMENT LETTER BEFORE PROCEEDING FURTHER**

- Auditing standards requirement to confirm terms of the audit engagement in writing.
- Practice aids available with examples.
- Tailor to the specific situation.
- Should cover both technical and business aspects of engagement.
- Proofread carefully before sending to client.

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### **GENERALLY ADVISABLE TO VISIT THE PRIOR AUDITOR**

- Have all of the executed “permissions” required by the client and prior auditor.
- Copy those working papers where the prior auditor can help us with this audit.
- Take good notes of analytical comments.
- Prior auditor will probably not release audit programs or conclusions documented in the audit files.

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## **GET THE RIGHT PEOPLE TO PERFORM THE AUDIT**

- Schedule staff.
- Make use of available talent.
- Consider use of non-audit professionals (e.g. tax, employee benefits, CFE, EDP and/or other consulting personnel).
- Look for areas of prior and other potential audit adjustments and consider this in assigning work.

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## **ANALYTICAL PROCEDURES ARE VERY HELPFUL**

- Required by Statements on Auditing Standards.
- Risk assessment standards require documentation of expectations.
- Document these expectations before documenting the “comparisons”.
- Can use prior year and client-prepared budget as base for expectations.
- In low-risk areas, these may be the only procedures.

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### **INHERENT RISK CONSIDERATIONS**

- Generally assessed at the financial statement line item level.
- Materiality of balance to the financial statements.
- Behavior in comparison to expectations.
- Extent of management estimates involved in determining the account balance.

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### **FRAUD RISK ASSESSMENT**

- Fraud is rampant in today's society and economy.
- Team meeting required by SAS 99.
- Select multiple client personnel for "interviews".
- May wish to have a CFE involved, if available.

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## **INTERNAL CONTROL**

- Start with the big picture – tone at the top – then detail controls.
- If this was done in prior years – update – but ask client to re-explain procedures.
- Ask questions if you do not understand client's response to any inquiries – and don't just ask if "same as last year".
- Walk-through procedures.
- If election to detail test controls is made, coordinate with substantive tests.

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## **OVERALL RISK ASSESSMENT**

- Done at the "assertion" level.
- Requires that the auditor understand the assertions and how they relate to the financial statements.
- Tailor audit program based on overall risk assessment.
- Review time budget after this process to determine any necessary time estimate changes.

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## **REQUESTS OF ITEMS FROM CLIENT (“PBC” LIST)**

- Audit “through the financial statements” – includes getting support for notes.
- Get this request to the client as early as reasonably possible.
- Include confirmation requests and other items requiring third party input.
- Consider client ability and need for auditor assistance.
- If audit documentation system is “paperless”, auditor will need everything electronically.
- Electronic versions need to be compatible (or convertible) into auditor’s system.

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## **CONFIRMATIONS**

- Banks – consider joining a confirmation alliance.
- Proof very carefully – include email address or fax number.
- Have confirmation requests signed by the appropriate client senior management official.
- For receivables (and possibly consigned inventory) – helpful to include a statement of account.
- At one time, all confirmation requests were mailed, with the auditor controlling the mailing.
- Can use email or fax, but control transmission and receipt.

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### **SPACE AT CLIENT**

- Needs to be enough space for all – often a conference room is the best.
- Privacy for speaking to staff.
- Electrical outlets (consider bringing extension cords).
- Adequate lighting and air conditioning.
- Good places for lunch.

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### **MANAGEMENT**

- Where we're at – ready to go out to the field.
- Start what some consider the “real” audit work.
- “Execution” phase of the audit.
- Senior (or other in-charge auditor) often running things, with manager oversight.

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### **TIME MANAGEMENT BECOMES MORE CRITICAL**

- Hopefully, the engagement has been properly planned.
- Should not have used too much time (rule of thumb often used is approximately 20% but can vary significantly depending on the complexity of the engagement).

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### **ESTABLISH DAILY ACTIVITIES**

- Generally done by senior or other in-charge auditor.
- Assign specific tasks to staff.
- Set up tasks by day based on the overall time budget.
- Prioritize by most critical areas first.
- Ask for manager guidance as appropriate.

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### **WHAT IS A CRITICAL AREA FOR THIS PURPOSE?**

- One that will take lead time, such as obtaining confirm replies not already received.
- One that requires significant estimation.
- One that is politically charged.
- One that is considered high risk – especially for fraud risk.
- One that requires further client analysis and/or pulling lots of documents.

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### **MONITORING OF PROGRESS**

- Check with staff “early and often”.
- Some staff have frequent questions – others not frequent enough.
- Staff may not know that they might not be going in the right direction.
- First time audits especially tricky – no documentation to “follow”.
- Review work on an ongoing basis – do not wait to do it all at the end of or after completion of fieldwork.
- Necessary oversight by manager and partner.

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## **MONITORING OF TIME**

- Many vehicles to do this.
- EXCEL worksheets.
- Pivot tables with input from time and billing system.
- Modular Audit Planning Systems (MAPS).
- Other commercial engagement monitoring systems.

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## **WRAP-UP OF FIELD WORK**

- Subsequent events, which must be considered through the report date.
- Review process – ascertain that the work has been reviewed in accordance with firm standards.
- SAS requirements for documentation.

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## **FINANCIAL STATEMENTS AND REPORT**

- Ideally prepared (even reviewed) in the field.
- Include new disclosures – FIN 48, subsequent events, keep up with fair value requirements.
- Client input on financial statements and representation letter.
- Specific points for representation letter should be accumulated throughout the audit.

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## **REPORT NOW READY TO BE “DATED”**

- Requires that review processes be completed.
- Financial statements ready to be submitted in final draft form to client.
- SAS now requires report to be dated the date that the financial statements are either “issued” or “available to be issued”.
- Representation letter is required and carries the same date as the report.
- Send representation letter to client with final draft form financial statements – don’t depend on following up afterwards.

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## **OTHER COMMUNICATIONS**

- Internal control – was SAS 112, now SAS 115.
- SAS 115 revises definitions of “significant deficiencies” and “material weaknesses” and provides an updated example letter to communicate these items.
- Communications to those charged with governance – SAS 114.
- SAS 114 is a very hot topic for peer reviewers, along with the risk assessment requirements.

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## **FINALIZATION**

- Have someone read once more.
- Consider someone in the firm that is a good “proofreader”.
- Page and sign.
- Final sign-off and file completion/storage.

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# QUESTIONS?

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# THANK YOU!

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# ***SAS Update***

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*Richard G. Edsall, CPA, MBA, CFE*

# Audit and Attest Standards Update \*

## FICPA ACCOUNTING SHOW

Richard G. Edsall, CPA, CFE, MBA

\* Written and originally presented at the June 2010 FABExpo  
by Harold Monk, Jr., CPA, CFE

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## Session Objectives

- Discuss the recent activities of the ASB
  - Clarity project
  - Clarified SAS, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
  - SAS No. 117, *Compliance Audits*

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## Session Objectives

- SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*
- SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*
- SAS No. 120, *Required Supplementary Information*
- Proposed Standards:
  - Proposed SSAE, *Reporting on Controls at a Service Organization*
  - Proposed SAS, *Audit Considerations Relating to an Entity Using a Service Organization*
  - Proposed SAS, *Related Parties*

3

## Session Objectives

- XBRL
- Sustainability
- Audit issues with respect to 403(b) plans

4



## Recent Auditing Standards Board Activities

### Clarity Project

5

## Clarity

- Background
  - Discussion paper issued March 2007
  - ASB considered comments received and approved direction forward August 2007
- Goals:
  - Address concerns over length and complexity of standards
  - Make standards easier to read, understand and implement
  - Will lead to enhancements in audit quality

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# Clarity Drafting Conventions

- Introduction
- Objective
- Definitions
  - Terms used in the SAS are defined
  - Establish separate glossary of terms
- Requirements and Application Material

7

## Objective

- Create objectives for each standard
  - Establish Obligation Related to the objective
  - Provide a framework for the application of professional judgment
  - Difficult to achieve the overall objective of the audit if individual objectives are not achieved

8

## Requirements and Application Material

- Requirements expressed with *must* or *should*
- Application and other explanatory material presented in a separate section that follows the requirements
- Application and other explanatory material paragraphs numbered using an A prefix
- Cross-referencing between requirements and related application material

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## Clarity and Convergence

- Convergence with ISAs
  - Removal of unnecessary differences
- Supplemental materials with EDs
  - Mapping of the requirements and guidance contained within extant AU section to the proposed SAS; and
  - Schedule of proposed changes in requirements and explanatory material as a result of redrafting.
  - Schedule of detailed changes in language between the proposed SAS and the ISA.
  - Exhibit of substantive differences with ISA

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## Audit and Attest Update Clarity Project

- Once finalized, they'll be made available to practitioners.
- However, the standards will not become effective piecemeal.
- With limited exceptions, all "clarified standards" will become effective at the same time
  - Most likely 2011

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## Audit and Attest Update Clarity Project

- ◆ All but 6 finalized by October 2010; remainder January 2011
- ◆ Once all clarified standards have been finalized, most will be issued in **one** SAS (SAS No. 12X) that will be codified in "AU section" format.
- ◆ To address practice issues, certain clarified SASs (SASs No. 117 – 120) have been assigned numbers and already been issued.

12  
12

## Clarity Project Effective Date

- ◆ Exposure drafts stated effective for audits of financial statements for periods *beginning* on or after December 15, 2010 (2011 year-end audits)
- ◆ May be delayed one year to periods *ending* on or after December 15, 2012 (2012 year-end audits)
  - Change makes effective for year-end but not interim periods.
  - Allow more time for updating firm methodologies and training.

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## Audit and Attest Update Clarity Project

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Improving+the+Clarity+of+ASB+Standards.htm>

- Clarity Project Explanatory Memorandum
- Clarity Project Questions and Answers
- Clarity Exposure Drafts
- Clarity Final Standards

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April 2, 2010

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### Final Clarified Statements on Auditing Standards

This section includes all clarified Statements on Auditing Standards (SASs) that have been issued by the Auditing Standards Board (ASB) but are not yet effective. Refer to "[AICPA Clarity Project: Questions and Answers About Status and Final Product](#)" for effective date details. Upon the issuance of all clarified SASs, one SAS will be issued containing all clarified SASs in codified format.

- Risk Assessment
  - [Planning an Audit](#)
  - [Materiality in Planning and Performing an Audit](#)
  - [Evaluation of Misstatements Identified During the Audit](#)
  - [Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement \(Redrafted\)](#)
  - [Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained \(Redrafted\)](#)
  - [Audit Evidence \(Redrafted\)](#)
- [Preface to Codification of Statements on Auditing Standards, Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards and Statement on Auditing Standards, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards](#)
- [Statement on Auditing Standards, Audit Documentation \(Redrafted\)](#)
- [Statement on Auditing Standards, The Auditor's Communication With Those Charged With Governance \(Redrafted\)](#)

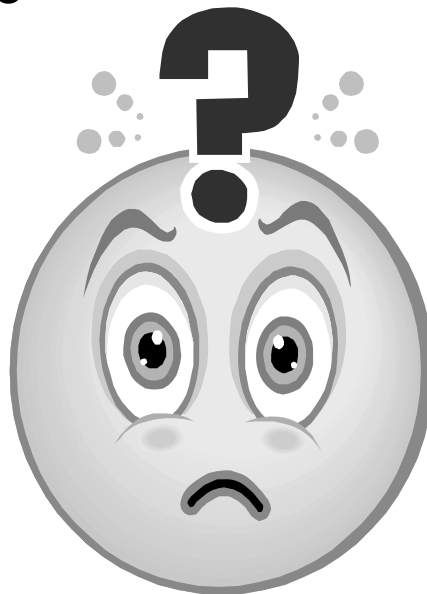
# Convergence Of Auditing Standards

Convergence  
means  
my way



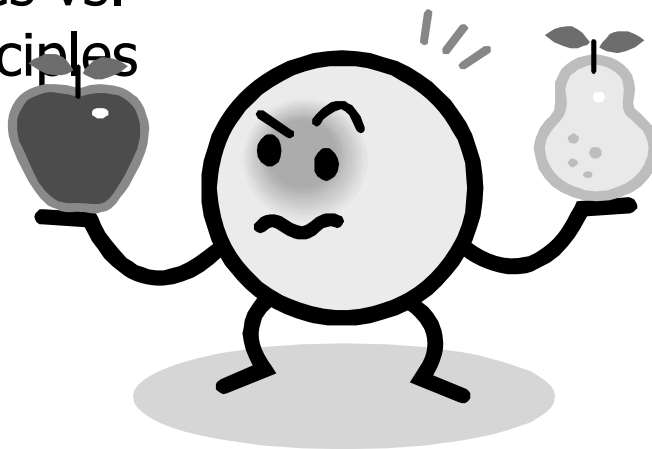
17

What do  
the  
words  
mean?



18

Other  
challenges:  
Rules vs.  
Principles



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## Clarity Revision of SAS 115

- Will add two requirements
  - Communicate other deficiencies to management
  - Include in the written communication of significant deficiencies or material weaknesses their potential effects

20



## Recently Issued Standards

Statement on Auditing Standards No. 116,  
*Interim Financial Information*

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## SAS 116

- Effective for reviews of interim financial information for interim periods beginning after December 15, 2009. Early application is permitted
- Supercedes SAS 100

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## SAS 116

- Applies when:
  - The entity's latest annual financial statements have been audited by the accountant or a predecessor;
  - The accountant has been engaged to audit the entity's current year financial statements, or the accountant audited the entity's latest annual financial statements and expects to be engaged to audit the current year financial statements

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## SAS 116

- If the interim financial information is condensed all of the following are met:
  - The condensed interim financial statements purport to conform with an appropriate financial reporting framework
  - The condensed interim financial information includes a note that the financial information does not represent complete financial statements and should be read in conjunction with the entity's latest annual audited financial statements

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## SAS 116

- The condensed interim financial information accompanies the entity’s latest audited financial statements or such audited annual financial statements are made readily available by the entity.
  - Readily available = a third party can obtain the financial statements without any further action by the entity.
    - F/S on the web may be readily available
    - “Available upon request” are not readily available

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## Audit and Attest Standards Update

### Other Current ASB Projects

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## Audit and Attest Standards Update- Other Current ASB Projects

- Newly approved standard – *Preface to the Codification of Statements on Auditing Standards* and
- Statement on Auditing Standards – *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

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## Preface

- Supersede SAS 95, *Generally Accepted Auditing Standards*
  - Currently contains the general, field work, and reporting standards
- If an auditor fulfills the overall objective of the auditor and meets applicable ethical requirements, the ASB believes they will have fulfilled the requirements of the 10 standards. Accordingly the new SAS does not contain the equivalent of the 10 standards.
  - They are restated in guiding fundamental principles.

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# Preface

- Proposed Preface
  - An audit is conducted on the premise that management and those charged with governance have responsibility
    - For the preparation and presentation of the financial statements which includes the design, implementation and maintenance of internal control
    - To provide the auditor with all information required or requested and unrestricted access to those within the entity

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## SAS – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards

- Establishes the auditors overall responsibilities when conducting an audit
- Sets out the overall objectives
- Explains the nature and scope of an audit
- Explains the scope, authority and structure of GAAS
- Includes requirements establishing the general responsibilities of the auditor in all audits
- “10 Standards” superseded, replaced by overall objective of the auditor and objective of each SAS

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## Overall Objectives of the Auditor

- Purpose of an audit is to enhance the degree of confidence that intended users can place in the financial statements
  - Achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework
    - FASB, GASB, FASAB, OCBOA, IFRS (General Purpose / Fair Presentation) or Special Purpose Framework

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## Overall Objectives of the Auditor

- Opinion based on obtaining reasonable assurance financial statements are free from material misstatement
- Opinion deals with financial statements as a whole so auditor is not responsible for the detection of misstatements not considered material.

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## Overall Objectives of the Auditor

- Auditor should comply with relevant ethical requirements including independence and due care
- Auditor should plan and perform the audit with professional skepticism
- Comply with all relevant AU sections
- Auditor should have an understanding of the entire text of an AU section
- Auditor may make suggestions about or draft in whole or in part the financial statements

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## Recent Auditing Standards Board Activities

*SAS No. 117, Compliance Auditing*

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## SAS No. 117

- SAS responds to federal study indicating need for improvements in quality of audits under OMB Circular A133, *Audits of States, Local Governments, and Non-Profit Organizations*
- Supersedes SAS 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*
- Issued in December 2009

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## SAS No. 117

Applicable when performing a compliance audit in accordance with **all** of the following:

- GAAS
- The standards for financial audits under Government Auditing Standards (AKA: Yellow Book or GAGAS)
- A governmental audit requirement requiring the <sup>36</sup>



## SAS No. 117

- Auditor is required to adapt and apply GAAS (which addresses audits of financial statements) to an audit of an entity's compliance with laws or regulations.
- Appendix identifies the AU sections that are not applicable to a compliance audit.

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## SAS No. 117

- SAS 117 contains the broad requirements for a compliance audit.
- AICPA Audit Guide, *Government Auditing Standards and Circular A133 Audits*, contains the detailed implementation guidance

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# Compliance Audits

## Revisions to AU 801

- Identifies auditor requirements unique to compliance audits
  - Design and perform further audit procedures, including tests of details, to obtain sufficient appropriate audit evidence about the entity's compliance with each of the applicable compliance requirements in response to assessed risks of material noncompliance.

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# Compliance Audits

- Requirements (continued)
  - Identify audit requirements specified in the government audit requirement that is supplementary to GAAS and GAS and perform appropriate procedures
  - If audit guidance provided by government agency has not been updated or conflicts with current GAAS or GAS, comply with the most current applicable GAAS and GAS instead of the outdated or conflicting guidance

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## Recent Auditing Standards Board Activities

### *SAS No. 118, Other Information in Documents Containing Audited Financial Statements*

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## SAS No. 118

- Effective for audits of financial statements for periods beginning on or after 12/15/10.
  - Early application is permitted
- Supersedes AU 550 and (along with SAS No. 119) AU 551.

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## SAS No. 118

- OI = information that is included in a document containing audited financial statements and the auditor's report thereon, excluding required supplementary information

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## SAS No. 118

- *Documents containing audited financial statements* = annual reports (or similar documents) that are issued to owners (or similar stakeholders) and annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public that contain audited financial statements and the auditor's report thereon.
- SAS also may be applied, adapted as necessary in the circumstances, to other documents to which the auditor, at management's request, devotes attention.

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## SAS No. 118

- Eliminates the distinction between OI that is in an auditor submitted vs. client prepared document
- Make arrangements with management or those charged with governance to obtain the OI prior to the report release date
- Read the OI that the auditor is aware of in order to identify *material inconsistencies* with the AFS

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## SAS No. 118

- If material inconsistency is identified prior to report release date and management refuses to make the revision:
  - Include an explanatory paragraph in the auditor's report
  - Withhold the auditor's report, or
  - Withdraw if possible
- If material inconsistency is indentified after the report release date treat as a subsequent discovery of facts (AU 561)

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## SAS No. 118

- If the auditor becomes aware of a *material misstatement of fact*, discuss with management
  - After discussion – request management to consult and then consider the advice received
  - Notify those charged with governance

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## Recent Auditing Standards Board Activities

*SAS No. 119, Supplementary  
Information in Relation to the  
Financial Statements as a Whole*

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## SAS No. 119

- Effective for audits of financial statements for periods beginning on or after 12/15/10.
  - Early application is permitted
- Supersedes (along with SAS No. 118) AU 551.

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## SAS No. 119

- In order to opine on whether SI is fairly stated in relation to the financial statements as a whole that the auditor determine that all of the following conditions are met:
  - the SI was derived from, and relates directly to, the underlying accounting and other records used to prepare the f/s.
  - the SI relates to the same period as the f/s.
  - the f/s were audited, and the auditor served as the principal auditor in that engagement.

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## SAS No. 119

- Neither an adverse opinion nor a disclaimer of opinion was issued on the f/s
- the SI will accompany the entity's AFS or such AFS will be made readily available by the entity.
  - Auditor is required to obtain management's acknowledgement that it is responsible to present the SI with the AFS or make the AFS readily available no later than the date of issuance of the SI.

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## SAS No. 119

- In addition to procedures performed during the f/s audit, in order to provide an IRT opinion, the auditor performs the following procedures **(using the same materiality level as used during the f/s audit)**:
  - inquire of management about the purpose of the SI and the criteria used by management to prepare the supplementary information (FRF, regulator criteria, contractual, other)
  - determine whether the form and content of the SI complies with the applicable criteria.

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## SAS No. 119

- obtain an understanding about the methods of preparing the SI and determine whether the methods of preparing the SI have changed from those used in the prior period and, if the methods have changed, the reasons for such changes.
- compare and reconcile the SI to the underlying accounting and other records used in preparing the f/s or the f/s themselves.

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## SAS No. 119

- inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the SI.
- evaluate the appropriateness and completeness of the SI, considering the results of the procedures performed and other knowledge obtained during the audit of the f/s.
- obtain written representations from management.

54

## SAS No. 119

- When the SI is presented with the AFS, the auditor reports on SI either:
  - In an explanatory paragraph in the report on the AFS
  - In a separate report
- If the SI is not presented with the AFS, then the auditor reports separately on the SI.
- When reporting separately on the SI, the report includes a reference to the report on the AFS (date of that report, nature of opinion expressed, and any report modifications).

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## SAS No. 119

- If adverse opinion or disclaimer on AFS, the auditor can issue a report on SI stating that it is inappropriate to express an opinion on it.
- Report on SI is not dated earlier than when procedures are completed.

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## Recent Auditing Standards Board Activities

### *SAS No. 120, Required Supplementary Information*

57 57

## SAS No. 120

- Effective for audits of financial statements for periods beginning on or after 12/15/10.
  - Early application is permitted
- Supersedes AU 558.

58

## SAS No. 120

- RSI
  - Information that a designated accounting standard setter requires to accompany an entity's basic f/s.
  - RSI is not part of the basic f/s
  - A designated accounting standard setter considers the information to be an essential part of the financial reporting for placing the basic f/s in an appropriate operational, economic, or historical context.
  - Authoritative guidelines for the methods of measurement and presentation of the information have been established.

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## SAS No. 120

- Required procedures:
  - Inquire of management about the methods of preparing the information, including
    - whether it has been measured and presented in accordance with prescribed guidelines,
    - whether methods of measurement or presentation have changed from those used in the prior period and the reasons for any such changes, and

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## SAS No. 120

- whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information.
- compare the information for consistency with
  - management's responses to the inquires,
  - the basic f/s, and
  - other knowledge obtained during the audit of the basic f/s.
- obtain written reps from management

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## SAS No. 120

- Include an explanatory paragraph in the auditor's report on the f/s referring to the RSI. Different language is required based on:
  - The RSI is included and the auditor has applied all of the required procedures
  - The RSI is omitted
  - Some RSI is missing and some is presented in accordance with the prescribed guidelines
  - The auditor has identified material departures from the prescribed guidelines
  - The auditor is unable to complete the required procedures

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## SAS No. 120

- The auditor has unresolved doubts about whether the RSI is presented in accordance with prescribed guidelines

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## Recent Auditing Standards Board Activities

*Proposed SSAE, Reporting on Controls  
at a Service Organization*

&

*Proposed SAS, Audit Considerations  
Relating to an Entity Using a Service  
Organization*

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## Service Organizations

Extant SAS 70, *Service Organizations*, establishes requirements and provides guidance for both:

- Auditors performing a service auditor's engagement (service auditors)

and

- Auditors auditing the financial statements of an entity that uses a service organization

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## Service Organizations

- When a user entity outsources tasks to a service organization that may be relevant to the user entity's internal control over financial reporting, the user auditor will need information about controls at the service organization that affect the user entity's financial reporting.
- A service auditor's report is one way of obtaining that information

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## Service Organizations

The following two standards replace SAS No. 70

- SSAE No. 16, *Reporting on Controls at a Service Organization* (for service auditors)
- Clarified SAS, *Audit Considerations Relating to an Entity Using a Service Organization* (for user auditors)

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## Service Organizations

The new standards are based on the following standards issued by the IAASB:

- International Statement on Assurance Standards (ISAE) 3402, *Assurance Reports on Controls at a Service Organization* (for service auditors)
- International Standard on Auditing (ISA) 402, *Audit Considerations Relating to an Entity Using a Service Organization* (for user auditors)

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# Service Organizations

## What's new?

### SSAE 16

- Requires a service auditor to obtain an assertion from management of the service organization
- States that evidence obtained in prior engagements about the satisfactory operation of controls does not provide a basis for a reduction in testing.

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# Service Organizations

## What's new?

### SSAE No. 16

- Requires the service auditor's description of tests of controls to identify work performed by internal audit and the service auditor's procedures with respect to that work.
- For type 2 reports, changes the period covered by the service organization's description of the system

	<b>SAS No. 70</b>	<b>SSAE No. 16</b>
<b>Type 2 Report</b>	<b>As of a period</b>	<b>For a period</b>

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## Service Organizations

- SSAE 16 is effective for periods ending on or after June 15, 2011.
  - Has same effective date as ISAE 3402
  - Will be effective before the SAS is effective
- SAS for user auditors is provisionally effective for periods beginning on or after December 15 2010

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## Recent Auditing Standards Board Activities

XBRL

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## XBRL

- On January 30, 2009, the SEC issued a release adopting final rules requiring issuers to provide their financial statements to the SEC and on their corporate Web sites in interactive data format using eXtensible Business Reporting Language (XBRL).

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## XBRL

### What is XBRL?

- A global standard that establishes electronically readable codes (tags) for each item in financial statements or other business reports.
- Enables XBRL-enabled software to search for a specified tag, recognize it, and retrieve it; e.g., an investor could quickly search for, retrieve, and compare sales figures for all auto manufacturers during a specified period.

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## XBRL

- Because entities have limited experience with XBRL, management may ask a CPA to assist them in assessing the completeness, accuracy, or consistency of the XBRL-tagged data.
- In April 2009, ASB issued SOP 09-1, *Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data*

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## XBRL

- A task force of the AICPA Assurance Services Executive Committee is working on an SOP that would enable CPAs to examine an entity's XBRL tagged data.
- The IAASB has been discussing how to best address the issue of auditor association with XBRL data and plans to issue an ISAE on this topic. The Sustainability Task Force will be monitoring the IAASB's project for opportunities for convergence.

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## Recent Auditing Standards Board Activities

### Sustainability

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## **Sustainability**

- The IAASB has developed
    - A working draft of a proposed ISAE, *Assurance on a Greenhouse Gas Statement*
- and
- A Consultation Paper to obtain feedback from the public prior to issuing the proposed ISAE as an exposure draft. The ASB submitted responses to the questions in the Consultation Paper.

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## Sustainability

In September 2003, a joint task force of the ASB and the Canadian Institute of Chartered Accountants issued SOP 03-2, *Attest Engagements on Greenhouse Gas Emissions Information*, which addresses the same subject matter as the proposed ISAE. The task force will be monitoring the IAASB's project to determine whether revisions should be made to the SOP to reflect content in the proposed ISAE.

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## Recent Auditing Standards Board Activities

Audit Issues With Respect to  
403(b) Plans

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## Auditing 403(b) Plans

- In November 2007, the Department of Labor issued amended regulations eliminating an exemption granted to 403(b) plans from the annual Form 5500 reporting, disclosure and audit requirements under Part 1 of Subtitle B of Title I of ERISA.
- Subjects ERISA-covered 403(b) plans to the same Form 5500 reporting and audit requirements as 401(k) plans
- Effective with 2009 Form 5500 filings (due in 2010)
- DOL issues FAB 2009-02 *Annual Reporting Requirements for 403(b) Plans* and FAB 2010-01, *Annual Reporting and ERISA Coverage for 403(b) Plans*

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## Auditing 403(b) Plans

Many 403(b) plan administrators face significant challenges:

- Identifying all current and former participant accounts to be included as plan assets
- Determining beginning account balances (Comparative balances are required as of December 31, 2008 for calendar year plans)
- Establishing plan accounting records
- Establishing proper internal controls
- Obtaining other financial information to be included in the plan's financial statements

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## Auditing 403(b) Plans

The unique challenges to auditing 403(b) plans also present auditors with challenges in evaluating the type of auditor's report to issue

### Tools and Resources:

- 403(b) Plans Resource Center
  - on EBPAQC website at [www.aicpa.org/EBPAQC](http://www.aicpa.org/EBPAQC)
- AICPA Audit Risk Alert, *Employee Benefit Plans Industry Developments – 2010*

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## New Proposed Auditors Report

- Adds discussion of managements responsibilities
- Adds required headings to paragraphs to clearly distinguish each section

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## Auditors' Report

- Research Project

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## Proposed SAS (Exposure Draft) – *Quality Control for an Audit of Financial Statements*

Engagement partner should:

- form a conclusion on compliance with independence requirements
- Be satisfied that appropriate procedures regarding acceptance & continuance have been followed
- Be satisfied engagement team has appropriate competence and capabilities
- Proper reviews are performed
- Sufficient evidence has been obtained

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## Documentation Required by QC SAS

- Conclusions on compliance with independence requirements
- Conclusions regarding acceptance & continuance of clients
- Nature & scope of and conclusions resulting from consultations

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## Documentation Required by QC SAS

Engagement Quality Control Reviewer should document:

- Procedures required by firm's QC policies have been performed
- Date QCR was completed
- Reviewer is not aware of any unresolved matters concerning significant judgments and conclusions

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## New SQCS Exposure Draft

- Some requirements that are duplicative of broader requirements have been moved to application material
- Requirement previously included in SAS 108, *Planning and Supervision* has been included in revised SQCS to make it applicable to all engagements
  - Procedures established for dealing with differences of opinion should enable a member of the engagement team to document that member's disagreement with conclusions reached after appropriate consultation

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THANK YOU!

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