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In our opinion... , March 2011

American Institute of Certified Public Accountants. Audit and Attest Standards Team

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In Our Opinion...

The Newsletter of the AICPA Audit and Attest Standards Team
inside...

March 2011

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Update on the ASB's Clarity and Convergence Project

The Auditing Standards Board (ASB) and the staff of the AICPA's Audit and Attest Standards Team are nearing completion of the "Clarity Project," the goal of which is to clarify and converge ASB audit, attest, and quality control standards with those of the International Auditing and Assurance Standards Board (IAASB). Special drafting conventions were adopted by the ASB to make the standards easier to read and apply and the resulting standards have come to be known as "clarified standards."

As indicated in prior issues of *In Our Opinion*, converging an ASB standard with an IAASB standard entails using the IAASB standard as a base and making changes to the IAASB standard only

- when the ASB decides to retain an auditor performance or reporting requirement that is included in the extant standard but not in the IAASB standard.
- to reflect U.S. law or regulation.
- to reflect terminology commonly used in the U.S.

Most of the ASB's standards are being clarified "one for one" into individual clarified standards. However in some cases, several ASB standards have been grouped together to form a single clarified standard. In other cases, certain paragraphs of existing standards have been carved out of a standard and placed in a different clarified standard.

Auditing Standards

As of this date, [37 Statements on Auditing Standards](#) (SAS) have been approved by the ASB and are awaiting issuance (“finalized but not issued”). These SASs will be issued as a single SAS that is codified in AU section format. An AU section identifies an individual standard, for example, AU section 350 currently contains the SAS, *Audit Sampling*. The ASB expects that the codified SAS will be issued in the second half of 2011. The AU section numbers of the clarified SASs will be the same as those of the IAASB standards. To help readers trace the existing standards to the clarified standards, the staff has prepared a [schedule](#) that maps the existing AU section numbers and titles to the clarified section numbers and titles.

To address certain practice issues, five clarified SASs (117, 118, 119, 120, and 121) were issued prior to the other clarified SASs. (See page 17 for the titles and effective dates of the clarified SASs that were issued early.) The effective date of all the other clarified SASs is for audits of financial statements for periods ending on or after December 15, 2012.

Attestation Standards

The ASB has also begun to clarify Statements on Standards for Attestation Engagements (SSAEs) to converge with the IAASB’s International Standards on Assurance Engagements (ISAEs). In April 2011, the ASB issued SSAE No. 16, *Reporting on Controls at a Service Organization* (product no. 023035). ISAE 3402, *Assurance Reports on Controls at a Service Organization*, the IAASB’s equivalent assurance standard, is effective for service auditors’ reports for periods ending on or after June 15, 2011. That standard like the ASB’s SSAE No. 16 requires management to provide the service auditor with a written assertion. The ASB felt it was important that the requirement for a written assertion become effective for both standards concurrently. Accordingly, SSAE No. 16 has the same effective date as ISAE 3402.

Quality Control Standards

The ASB also has clarified and issued Statement on Quality Control Standards (SQCS) No. 8, *A Firm’s System of Quality Control* (Redrafted). SQCS No. 8 is the only quality control standard and supersedes SQCS No. 7. SQCS No. 8 bears the same title as SQCS No. 7 and is effective as of January 1, 2012.

The process of converging ASB standards with those of the IAASB has provided the ASB with an opportunity to reexamine and refine its standards. In addition, the ASB believes that maintaining consistency with international standards will simplify practice for the growing number of firms that use both IAASB standards and ASB standards.

Additional information about the ASB’s [Clarity Project](#) is available on the AICPA’s Audit and Attest Standards Website.

Service Organization Controls (SOC) Reports

by Judith Sherinsky

The terms *service organization* and *user entity* are familiar to most CPAs who audit the financial statements of entities that use service organizations and look to Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, for guidance on the procedures to be performed in these engagements. (A *service organization* is an entity that performs tasks or functions for a user entity. A *user entity* is an entity that outsources tasks or functions to a service organization.) These terms have traditionally been applicable when a service organization generates data or other information

that is incorporated in a user entity's financial statements. In these circumstances, the auditor needs information about controls at the service organization that affect the data in the user entities' financial statements. However, the applicability of these terms is being broadened to cover a service organization's controls other than those relevant to user entities' financial reporting.

Service Organization Controls Relevant to User Entities' Financial Reporting

When a service organization implements controls that are relevant to user entities' internal control over financial reporting, the controls are intended to prevent, or detect and correct, misstatements in the user entities' financial statements. The rationale for implementing controls at a service organization is that when controls are suitably designed and operating effectively¹ there is a greater likelihood that data or other information generated by the service organization will be correct. An example of a service organization is a company that processes medical claims for health insurers and provides data to those insurers (for example, the cost of claims processed) that is incorporated in the health insurers' financial statements.

The auditor of a user entity's financial statements must find a way to obtain evidence about assertions in the user entity's financial statements that are based on the data or other information generated by the service organization. One way of doing so is to obtain a service auditor's report, which is a CPA's report that expresses an opinion on

1. the fairness of the presentation of a service organization's description of its system.
2. the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description.
3. the operating effectiveness of the controls to achieve the related control objectives stated in the description.

A type 1 report includes the CPA's opinion on items 1 and 2. A type 2 report includes these same opinions as well as an opinion on item 3, and a detailed description of the service auditor's tests of controls and results.

Other Types of Controls at Service Organizations

CPAs are often called upon to report on a service organization's controls other than those that are relevant to user entities' internal control over financial reporting. In this context, controls are intended to prevent, or detect and correct, errors or other negative events that prevent the service organization from achieving specified criteria or other control objectives. An example of such a control objective is maintaining the privacy of information included in medical claims processed for a health insurer by a claims processing service organization. The health insurer is responsible for maintaining the privacy of such information when the claims are in its possession as well as when the claims are being processed by the service organization. A health insurer that is concerned about complying with laws or regulations related to privacy may wish to obtain assurance about the service organization's controls over privacy that affect the users' information.

In the past, some service organizations have included controls and control objectives unrelated to user entities' internal control over financial reporting in their description of the service organization's system; for example, controls over the security or availability of a system. SAS No. 70 was never

¹ Controls that are suitably designed have the ability to meet the related control objective if they operate effectively. Controls that operate effectively actually do achieve the related control objective.

intended to address controls over subject matter other than internal control over financial reporting. Accordingly, in April 2010, that point was clarified when the guidance in SAS No. 70 for CPAs reporting on controls at a service organization was superseded by SSAE No. 16, *Reporting on Controls at a Service Organization*. Paragraph A2 of SSAE No. 16 indicates that a service organization's description of its system should not include aspects of the service organization's services (including relevant control objectives and related controls) that are not likely to be relevant to user entities' internal control over financial reporting. Accordingly, SSAE No. 16, like SAS No. 70, is not the appropriate standard for reporting on such controls. (SSAE No. 16 is effective for service auditors' reports for periods ending on or after June 15, 2011, with earlier implementation permitted)

New Guide for Reporting on Other Types of Service Organization Controls

The AICPA's Assurance Service Executive Committee has recently developed a guide entitled *Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Privacy, and Confidentiality* (product no. 0128210) for CPAs reporting on controls at service organizations other than those that are relevant to user entities' internal control over financial reporting. The engagement described in the guide is based on the framework in AT section 101, *Attest Engagements*, of the SSAEs, which enables a CPA to report on subject matter other than financial statements. The guide uses the same terms used in SSAE No. 16 and also in SAS No. 70 to refer to the various parties (*service organization, user entity, and service auditor*); therefore, the guide expands the applicability of these terms.

Unlike SAS No. 70 and SSAE No. 16, in which controls are evaluated by determining whether they achieve a specified control objective, the criteria for evaluating the design and operating effectiveness of the controls addressed by the new guide are the criteria in AICPA, *Technical Practice Aids* (TPA) section 100, *Trust Services Principles, Criteria, and Illustrations for Security, Availability, Processing Integrity, Confidentiality, and Privacy*. TPA section 100 contains criteria for each of the five attributes of a reliable system (security, availability, processing integrity, confidentiality, and privacy). A CPA may report on one or more of these attributes of a system by using the applicable criteria in TPA section 100. These criteria were originally developed for the engagements described in TPA section 100; none of the reports on these engagements include a description of the service auditor's test of controls and results.

SOC Reports

To make CPAs aware of the appropriate engagement to perform when reporting on controls at a service organization, depending on the subject matter that the controls address and the needs of report users, the AICPA has brought together information about three engagements that entail reporting on controls at a service organization. It has designated these reports as service organization controls (SOC) reports (SOC 1, SOC 2, and SOC 3 reports). A SOC 1 report refers to the report for the engagement described in SSAE No. 16, a SOC 2 report refers to the report for the engagement described in the new guide, and a SOC 3 report refers to the report for the examination engagement described in TPA section 100.

SSAE No. 16 Guide

In addition to the SOC 2 guide, the ASB has revised the AICPA guide *Applying SAS No 70, Service Organizations, as Amended*, to reflect the changes introduced by SSAE No. 16. The revised guide is titled *Applying SSAE No 16, Reporting on Controls at a Service Organization (SOC 1 guide)* (product number 0127910). Both guides will be available in June 2011.

New User Auditor SAS

The ASB has also finalized a new SAS that will supersede the requirements and guidance for user auditors in SAS No. 70. The new SAS *Audit Considerations Relating to an Entity Using a Service*

Organization is effective for audits of financial statements for periods ending on or after December 15, 2012. Until the effective date of the new SAS, the guidance for user auditors currently in SAS No. 70 is applicable. Collectively, the new SAS and SSAE No. 16 will supersede SAS No. 70.

Following is a table that compares the three SOC engagements and related reports and provides additional information about them.

Comparison of SOC 1, SOC 2, and SOC 3 Engagements and Related Reports

	SOC 1 Reports	SOC 2 Reports	SOC 3 Reports
Under what professional standard is the engagement performed?	Statement on Standards for Attestation Engagements No. 16, <i>Reporting on Controls at a Service Organization</i> (AICPA, <i>Professional Standards</i> , vol. 1, AT sec. 801) The AICPA Guide <i>Service Organizations: Applying SSAE No. 16</i> , Reporting on Controls at a Service Organization	AT section 101, <i>Attest Engagements</i> (AICPA, <i>Professional Standards</i> , vol. 1) The AICPA Guide, <i>Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy</i>	AT section 101 TSP section 100, <i>Trust Services Principles, Criteria, and Illustrations for Security, Availability, Processing Integrity, Confidentiality, and Privacy</i> (AICPA, <i>Technical Practice Aids</i>), provides the criteria for evaluating the design and operating effectiveness of controls in these engagements, as well as the criteria for the content of a privacy notice.
What is the subject matter of the engagement?	Controls at a service organization relevant to user entities' internal control over financial reporting.	Controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy. If the report addresses the privacy principle, the service organization's compliance with the commitments in its statement of privacy practices.	Controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy. If the report addresses the privacy principle, the service organization's compliance with the commitments in its privacy notice.
What is the purpose of the report?	To provide information to the auditor of a user entity's financial statements and a CPA's opinion about controls at a service organization that may be relevant to a user entity's internal control over financial reporting. It enables the user auditor to	To provide management of a service organization, user entities, and other specified parties with information and a CPA's opinion about controls at the service organization relevant to security, availability, processing integrity, confidentiality, or	To provide interested parties with a CPA's opinion about controls at the service organization relevant to security, availability, processing integrity, confidentiality, or privacy.

	SOC 1 Reports	SOC 2 Reports	SOC 3 Reports
	perform risk assessment procedures and, if a type 2 report is provided, to obtain evidence about the operating effectiveness of controls at the service organization.	privacy. A type 2 report that addresses the privacy principle also provides information and a CPA's opinion about the service organization's compliance with the commitments in its statement of privacy practices.	A report that addresses the privacy principle also provides a CPA's opinion about the service organization's compliance with the commitments in its privacy notice.
What are the required components of the report?	<p>A description of the service organization's system.</p> <p>A written assertion by management of the service organization regarding the description of the service organization's system and the suitability of the design and operating effectiveness of controls in achieving the specified control objectives.</p> <p>A service auditor's report that contains an opinion on the fairness of the presentation of the description of the service organization's system; the suitability of the design of the controls to achieve specified control objectives; and, in a type 2 report, the operating effectiveness of those controls.</p>	<p>A description of the service organization's system.</p> <p>A written assertion by management of the service organization regarding the description of the service organization's system and the suitability of the design and operating effectiveness of controls in meeting the applicable trust services criteria.</p> <p>A service auditor's report that contains an opinion on the fairness of the presentation of the description of the service organization's system; the suitability of the design of the controls to meet the applicable trust services criteria; and, in a type 2 report, the operating effectiveness of those controls.</p> <p>If the report addresses the privacy principle, the service auditor's opinion on whether the service organization complied with the commitments in its statement of privacy practices.</p>	<p>A description of the system and its boundaries¹ or, in the case of a report that addresses the privacy principle, a copy of the service organization's privacy notice.</p> <p>A written assertion by management of the service organization regarding the effectiveness of controls in meeting the applicable trust services criteria and, if the report addresses the privacy principle, compliance with the commitments in the service organization's privacy notice.</p> <p>A service auditor's report on whether the entity maintained effective controls over its system as it relates to the principle being reported on (that is, security, availability, processing integrity, confidentiality, or privacy), based on the applicable trust services criteria.</p> <p>If the report addresses the privacy principle, the service auditor's opinion on whether the service organization complied with the commitments in its privacy notice.</p>

¹ These descriptions are typically less detailed than the descriptions in SOC 1 or SOC 2 report and are not covered by the practitioner's report.

	SOC 1 Reports	SOC 2 Reports	SOC 3 Reports
	In a type 2 report, a description of the service auditor's tests of the controls and the results of the tests.	In a type 2 report, a description of the service auditor's tests of controls and the results of the tests. In a type 2 report that addresses the privacy principle, a description of the service auditor's tests of the service organization's compliance with the commitments in its statement of privacy practices and the results of those tests.	
Who are the intended users of the report?	Management of the service organization; for type 2 reports, user entities during some or all of the period covered by the report and for type 1 reports, user entities as of the period covered by the report; and auditors of the user entities' financial statements,.	Management of the service organization, and other specified parties who have sufficient knowledge and understanding of the following: <ul style="list-style-type: none"> •The nature of the service provided by the service organization •How the service organization's system interacts with user entities, subservice organizations, and other parties • Internal control and its limitations • Complementary user-entity controls and how they interact with related controls at the service organization to meet the applicable trust services criteria •The applicable trust services criteria •The risks that may threaten the achievement of the applicable trust services criteria and how controls address those risks 	Anyone

Independence in Review Engagements: Update on the ARSC's Reliability Project

by Mike Glynn

In December 1978, prior to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements*, the Accounting and Review Services Committee (ARSC) debated whether an accountant should be required to be independent in order to perform a review of financial statements under SSARSs. At the time, the ARSC was concerned about whether an accountant engaged to review the financial statements of a smaller entity could maintain his or her independence. Although SSARS No. 1 ultimately prohibited the performance of a review engagement when the accountant is not independent, this issue did not disappear. On the contrary, due to the increased complexity of accounting standards, it has become increasingly difficult for an accountant to maintain his or her independence when reviewing the financial statements of a smaller company.

With that in mind, in April 2009, the ARSC issued an exposure draft (ED) of a proposed SSARS that ultimately became SSARS No 19, *Compilation and Review Engagements*. One of the major elements of that ED was a proposal to permit an accountant to review financial statements if the accountant's independence was impaired as a result of performing nonattest services that included designing or operating an aspect of management's system of internal control over financial reporting (*internal control services*).

The comment period for the ED ended on July 31, 2009 and the ARSC received 169 comment letters on the proposed standard – most of which included comments on the proposal to permit a nonindependent review. Many of the comments were strongly in favor of the proposal but, a significant number were opposed to the revision. The ARSC decided to defer the issue to enable it to meet with key stakeholders and discuss any reservations regarding the proposal.

During that period, the AICPA's Professional Ethics Executive Committee (PEEC) commenced a project to revise the independence literature. In February 2011, the PEEC issued an exposure draft, *Omnibus Proposal AICPA Professional Ethics Division Interpretations and Rulings* ([PEEC ED](#)) that includes more than thirty new, revised, and deleted interpretations, ethics rulings, and definitions.

Specifically relevant to the ARSC's Reliability Project is a proposal to revise Interpretation No. 101-3 "Performance of Nonattest Services," under Rule 101, *Independence*. Among other revisions, the PEEC ED would change the section of the interpretation that lists general activities that impair a CPA's independence to a list of examples of activities that would be considered management's responsibility and, therefore impair a CPA's independence when performed for an attest client. The following marked text shows the proposed change to the item regarding internal control. (New language is shown in boldface italics; deleted language is shown by strikethrough.)

Accepting responsibility for designing, implementing, ~~Establishing~~ or maintaining internal controls including ~~performing ongoing monitoring activities~~ for a client.

As a result of this change, if management accepts responsibility for the results of the accountant's services, and the accountant meets the other general requirements of the Interpretation, the accountant's independence would not be impaired and the accountant would not be precluded from performing the services that the ARSC had previously defined as *internal control services*.

CPAs should refer to Interpretation 101-3 for the general requirements for determining whether any specific nonattest service impairs independence.

The comment period for the PEEC ED ends on May 31, 2011. The ARSC plans to wait until the PEEC issues its final revisions to the independence literature before determining whether a nonindependent review should be introduced in SSARs.

New Members of the ASB

Samuel Cotterell, CPA, currently is senior vice president and chief financial officer of Boise Inc., a 2 billion dollar public company that manufactures paper and packaging products. He was previously the vice president and controller of Boise Inc. and held the same position with Boise Cascade, LLC. Before that, he was a senior manager at Arthur Andersen in Boise, Idaho. Sam received B.A. degrees from the University of Idaho and Boise State University and holds a masters degree in international management from the American Graduate School of International Management. He served on the Idaho State Board of Accountancy from 1996 to 2001, as chair of the Board in 2000-2001, and was reappointed to the Board in 2004 for a five-year term. He also served as the investigative chair for the Idaho State Board of Accountancy. Since 1996, Sam has been very involved in the National Association of State Boards of Accountancy (NASBA) and served as chair during 2007-2008. He also has served as chair of the NASBA's Global Strategies Committee, Administration and Finance Committee, UAA Committee, Professional and Regulatory Response Committee, Strategic Initiatives Committee, and Awards Committee, and was a member of NASBA's Regulatory Structures Committee. In 2004, Sam was appointed by the PCAOB to a two-year term as a member of its original Standing Advisory Group (SAG). Sam is past-president of the Boise Public Schools Education Foundation. He has been very active as a volunteer in other community organizations, including the Treasure Valley United Way, the Idaho Society of CPAs, and Boise North Little League. He was an adjunct faculty member at Boise State University for ten years. Sam speaks fluent Spanish. To relax, Sam participates in triathlons.

James R. Dalkin is a director in the Financial Management and Assurance Team with the U.S. Government Accountability Office (GAO). He has overall responsibility for government auditing standards (the *Yellow Book*), internal control (the *Green Book*) and GAO's work with the accounting and auditing profession. He also is responsible for the audit of the Securities Exchange Commission and the statements of social insurance included in the financial report of the United States. Prior to joining the GAO, Jim served at a global firm and audited a wide range of organizations ranging from commercial health care entities to governmental agencies. Jim is a frequent speaker at AICPA national auditing conferences. He also has authored articles for publications including the *Journal of Accountancy*. He has contributed to the profession through his involvement with the ASB task force on restricted use reports and on quality control. He serves on the adjunct accounting faculty at Georgetown University. Jim has an MBA degree from George Washington University and a BS degree in accounting from the University of Virginia.

Edwin G. Jolicoeur is a principal in the assurance and accounting quality group of LarsonAllen LLP. For over 27 years he was director of quality control – assurance services of LeMaster Daniels which was acquired by LarsonAllen in November 2010. Throughout his career he has served a wide variety of audit clients in business, nonprofit, and governmental sectors. Since 1995 Ed has been a member and past chair of the Washington State Board of Accountancy. He is actively involved in NASBA and serves on several of its committees. Previously, he served as a member of the AICPA's PCPS Technical Issues Committee, PCPS Executive Committee, SECPS Peer

Review Committee, and Joint Quality Control Standards Task Force. Ed was a member of the FASB's income tax accounting implementation group and also has been an officer and board member of the Washington Society of CPAs. Ed received a B.S. degree in accounting from the University of Montana and resides with his wife Val in Spokane, Washington. Ed and Val enjoy golf, boating and travel in their free time.

Kim L. Tredinnick has been with the firm Baker Tilly Virchow Krause, LLP (Baker Tilly) since 1972 and has been a partner since 1978. He served as the firm's director of accounting and auditing from 1980 through 2003, responsible for monitoring the firm's quality control system. Kim currently is a partner in the firm's Risk & Compliance Group and has significant experience in audits of governmental entities, not-for-profit organizations, employee benefit plans, and construction contractors. He has been actively involved in the peer review process, having performed peer reviews for accounting firms around the nation as well as overseeing the peer reviews of Baker Tilly. Kim currently is the vice-chair of the Wisconsin Accounting Examining Board and a member of the NASBA Board of Directors. Kim graduated from the University of Wisconsin – Madison, with a BBA degree in accounting. He and his wife Toni, who is a retired school teacher from the Madison Public School system, have been married for over 38 years. They have two sons; one is a project manager for a construction company and the other works for Baker Tilly in its Minneapolis office. He is the third generation of Kim's family to work for Baker Tilly.

Kurtis Wolff has more than 25 years of experience providing accounting, auditing, transaction structuring, financial reporting, and management advisory services to clients. He has specialized in business risk management and corporate governance. Kurtis is currently responsible for all aspects of the audit and assurance function for Reznick Group, including overseeing the establishment and maintenance of policies and quality control. Kurtis chairs Reznick Group's Accounting and Auditing Executive Committee and is a member of the firm's Mergers and Acquisitions Executive Committee. In his role, Kurtis also consults regularly on client matters and serves as an engagement quality reviewer. As a former Deloitte partner, Kurtis managed accounting and auditing services for several Fortune 500 companies and served public and private entities with revenues from \$25 million to \$17 billion. As the pacific southwest leader of enterprise risk management services, he designed risk management and risk-aware business planning processes that were successfully implemented by several multibillion dollar clients, improving business predictability and profitability. His work with the Union Oil Company of California (UNOCAL) is published as a case study in the Financial Executive Institute's publication, "Making Enterprise Risk Management Pay Off." Kurtis recently completed a three year term as a member of the Center for Audit Quality's (CAQ) SEC Regulations Committee and currently serves as a member of the CAQ's Audit Practices Task Force and the Smaller Firm Task Force. Kurtis and his wife live on Lake Lanier in Atlanta, while their two adult sons enjoy college life in Boulder, Colorado.

Michael Brand Joins the ARSC

by Mike Glynn

At the completion of the 2009-2010 committee year, Cassandra A. Camp completed her term as a member of the Accounting and Review Services Committee (ARSC). The AICPA is extremely grateful to Cassandra for the time she devoted and expertise she brought to the ARSC. She will continue her AICPA volunteer service as a member of the Professional Ethics Executive Committee.

Commencing with the 2010-2011 committee year Michael C. Brand joined the ARSC. He is a partner in the firm of Johnson, Feigley, Newton & Brand in Athens, Alabama. Mike received his B.S. degree in accounting from the University of North Alabama and has been in the practice of public accounting for over 20 years during which he has been involved in all aspects of public accounting with an emphasis in accounting, auditing, and review services. His clients include for profit entities, not-for-profits, and governmental entities. Mike also teaches continuing education classes across the United States and has spoken at several conferences nationwide. Additionally, he conducts peer reviews. He is the current chair of the Peer Review Committee of the Alabama Society of Certified Public Accountants and was formerly on the Peer Review Board, Joint Trial Board, and the Quality Control Standards Task Force of the AICPA. Mike currently lives in Athens, Alabama with his wife and two sons. He is actively involved in the community and enjoys his time outside of the office with his family, participating in outdoor sporting activities and cooking.

Highlights of Technical Activities

Task Forces of the ASB

Following are the current active task forces of the ASB and brief summaries of their objectives and recent activities.

Attest Engagements (Staff Liaison: Ahava Goldman; Task Force Chair: Brian Bluhm). At its March 2010 meeting, the IAASB discussed issues related to the revision of International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements*, and a draft of the proposed ISAE. The ASB task force will be providing technical advice to the International Auditing Standards Task Force related to this project, with the future goal of redrafting AT section 101, *Attest Engagements*, of Statement on Standards for Attestation Engagements, to apply the ASB's clarity drafting conventions and to converge with ISAE 3000.

Audit Issues (Staff Liaison: Ahava Goldman; Task Force Chair: Darrel Schubert). This task force (1) oversees the ASB's planning process, (2) evaluates technical issues raised by various constituencies and determines their appropriate disposition, including referral to an ASB task force or development of an interpretation or other guidance, (3) addresses emerging audit and attestation practice issues, (4) provides advice on ASB task force objectives and composition, (5) monitors the progress of task forces, and (6) assists the chair of the ASB and the Audit and Attest Standards staff in carrying out their functions, including liaising with other groups.

Auditors' Reports (Staff Liaison: Linda Delahanty; Task Force Chair: Dan Montgomery). This task force is redrafting paragraphs 19-21 "Compliance with Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements," of AU section 623, *Special Reports*, to apply the ASB's clarity conventions. Paragraphs 19-21 address by-product reports on compliance with aspects of contractual agreements or regulatory requirements. Because the guidance in these paragraphs does not relate to forming an opinion and reporting on a complete set of general purpose financial statements, the ASB concluded that the guidance should be developed as a stand-alone SAS to address this unique type of reporting. At its January 2010 meeting the ASB discussed a revised draft of the SAS and related issues. In response to the ASB's request, the draft eliminates references to negative assurance in relation to this form of reporting. In

addition, the task force eliminated the references to “by-product report” when describing these reports. The task force expects to present a revised draft of the SAS *Compliance with Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements (Redrafted)* at the May 2011 ASB meeting at which time it will ask the ASB to vote to issue the draft as a final standard.

Going Concern (Staff Liaison: Ahava Goldman; Task Force Chair: Brian Richson). This task force is redrafting AU Section 341, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, to apply the ASB’s clarity drafting conventions and to converge with ISA 570, *Going Concern*. The auditing guidance in ISA 570 is predicated on International Accounting Standard 1, *Presentation of Financial Statements*, which requires management to assess an entity’s ability to continue as a going concern. Currently, a parallel accounting requirement does not exist in U.S. generally accepted accounting principles, and the auditor, rather than management, is responsible for assessing whether an entity is a going concern. The Financial Accounting Standards Board (FASB) is working on an accounting standard that addresses this topic. An [update](#) on this project “Disclosure About Risks and Uncertainties and the Liquidation Basis of Accounting (formerly, Going Concern)” is available on the FASB’s Web site. The ASB task force presented a revised draft of the proposed SAS at the ASB’s January 2010 meeting that is neutral regarding the accounting framework used by management. The task force will continue to monitor the work of the FASB in developing the proposed standard.

Interim Reviews (Staff Liaison: Ahava Goldman; Task Force Chair: Rob Chevalier). The task force was charged with redrafting SAS No. 116, *Interim Financial Information*, (AU sec. 722), in accordance with the ASB’s clarity drafting conventions. In drafting the proposed SAS, the provisions of International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, were considered. The ASB considered the proposed SAS at its January 2010 meeting and voted to issue an exposure draft (ED) during its May 2010 meeting. The comment period for the ED ended in October 2010. The ASB also issued an ED, *Revised Applicability of SAS No. 116, Interim Financial Information*, to revise the applicability of SAS No. 116 to include engagements in which the auditor expects that a new auditor may be appointed for the current year but such appointment is not effective prior to the beginning of the period covered by the review. The Accounting and Review Services Committee issued an ED of a proposed Statement on Standards for Accounting and Review Services (SSARS), *Revised Applicability of SSARS No. 19, Compilation and Review Engagements*, to exclude engagements in which the auditor expects that a new auditor may be appointed for the current year but such appointment is not effective prior to the beginning of the period covered by the review. At its January 2011 meeting, the ASB discussed comments on the EDs as well as a draft of the proposed SAS *Interim Financial Information* and will bring a revised draft of the proposed SAS to the May 2011 ASB meeting, at which time the ASB will be asked to ballot the proposed SAS for issuance as a final standard.

Internal Audit (Staff Liaison: Hiram Hasty; Task Force Chair: Megan Zietsman). This task force is redrafting AU section 322, *The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements*, to apply the ASB’s clarity drafting conventions and to converge with ISA 610, *Using the Work of Internal Auditors*. The IAASB issued an exposure draft of ISA 610 in July 2010 and will be discussing that document at its March 2011 meeting. The task force is monitoring the IAASB’s project to revise ISA 610.

International Auditing Standards (Staff Liaison: Hiram Hasty; Task Force Chair: Dan Montgomery). The objective of this task force is to support the development of international auditing standards. Task force activities include providing technical advice and support to the AICPA

representative and technical advisors to the IAASB, commenting on exposure drafts of international assurance standards, participating in and identifying U.S. volunteer participants for international standard-setting projects, identifying opportunities for establishing joint standards with other standard setters, identifying international issues that affect audit and attest standards and practices, and assisting the ASB and other AICPA committees in developing and implementing AICPA international strategies. The next meeting of the task force will be on March 8, 2011.

Letters for Underwriters (Staff Liaison: Ahava Goldman; Task Force Chair: Phil Wedemeyer). This task force is redrafting AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, in accordance with the ASB's clarity drafting guidance. There is no ISA that corresponds with AU sec 634. The task force considered whether this section is relevant to nonissuer entities and concluded that it is. Comfort letters could be issued in accordance with this section for 144A offerings, acquisitions of a nonpublic company by a public company, initial public offerings, and other situations in which financial statements of a nonpublic company audited in accordance with generally accepted auditing standards are filed in connection with a securities transaction. The ASB issued an exposure draft of the proposed SAS in July 2010, discussed comments on the ED at its January 2011 meeting and expects to vote to issue the proposed SAS as a final standard at its May 2011 meeting

Pro Forma Financial Information (Staff Liaison: Andy Mrakovcic; Task Force Chair; Ernie Baugh). In April 2010, the IAASB issued an exposure draft (ED) of proposed ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*. The IAASB has made changes to the ED to reflect comment letters and will be discussing a revised draft of the ISAE at its March 2011 meeting. The ASB task force submitted a comment letter on the ED and has been monitoring changes to the draft. The future goal of the task force is to redraft AT section 401, *Reporting on Pro Forma Financial Information*, of the Statements on Standards for Attestation Engagements, to apply the ASB's clarity drafting conventions.

Reporting on Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country. (Technical Advisor: Michael Neller; Task Force Chair: Walt Conn). This task force applied the ASB's clarity drafting conventions to AU section 534, *Financial Statements Prepared for Use in Other Countries*. In September 2009, the ASB issued an exposure draft of the proposed SAS, *Reporting on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*. The proposed SAS addresses engagements in which the auditor is reporting on a U.S. entity's financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country. For financial statements that will be used in the U. S., the ED requires the auditor to report using the U.S. form of report, modified as appropriate (qualified or adverse), because of departures from U.S. generally accepted accounting principles. At its October 2010 meeting, the ASB revised the exposure draft for certain matters noted in comment letters and also concluded that the proposed SAS should be revised to require the auditor to include an emphasis-of-matter paragraph in the report to highlight the foreign financial reporting framework but permit the auditor to express an unqualified opinion. As a result of this change, the ASB also eliminated the concept of limited use from the proposed SAS. The ASB concluded that the change from requiring a modified report (qualified or adverse opinion) to permitting an unmodified opinion with a requirement for an emphasis-of-matter paragraph was significant enough to require re-exposure of the proposed SAS. The ASB voted unanimously to ballot the proposed SAS for issuance for reexposure. The ASB will discuss comments on the November 2010 revised ED at its May 2011 meeting.

Restricted Use Reports (Staff Liaison: Mike Glynn; Task Force Chair: Phil Wedemeyer) This task force has developed an exposure draft, issued in December 2010, of a proposed SAS *Alert as to the Intended Use of the Auditor's Written Communication* that would supersede SAS No. 87, *Restricting the Use of an Auditor's Report* (AU sec. 532). The proposed SAS represents the redrafting of SAS No. 87 to apply the ASB's clarity drafting conventions. The proposed SAS also eliminates the use of the term *restricted use* and instead addresses the *intended use* of such communications.

The proposed SAS establishes an umbrella requirement to include an alert as to the intended use of the auditor's written communication when the subject matter of that communication is based on

- a. measurement or disclosure criteria that are determined by the auditor to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria,
- b. measurement or disclosure criteria that are available only to the specified parties, or
- c. matters identified by the auditor during the course of the engagement that are not the primary objective of the engagement (commonly referred to as a by-product report).

The alert language, which indicates that the communication is solely for the information and use of the specified parties, is consistent with extant AU section 532, except when the engagement is also performed in accordance with *Government Auditing Standards*, and the written communication pursuant to that engagement is required by law or regulation to be made publicly available. In this circumstance, the alert language describes the purpose of the communication and states that the communication is not intended to be and should not be used for any other purpose. No specified parties are identified in this type of alert.

The proposed SAS also modifies the guidance pertaining to single combined reports covering both (a) communications that are required to include an alert as to intended use and (b) communications that are for general use, which do not ordinarily include such an alert. Extant AU section 532 states that if an auditor issues a single combined report, the use of the single combined report should be "restricted" to the specified parties. The proposed SAS, however, indicates that the alert as to intended use pertains only to the communications required to include such an alert. Accordingly, the intended use of the communications that are for general use is not affected by this alert.

Extant AU section 532 requires the auditor to consider informing his or her client that restricted use reports are not intended for distribution to nonspecified parties. The proposed SAS does not include a comparable requirement and makes clear that an auditor is not responsible for controlling distribution of the written communication. The alert is designed to avoid misunderstandings related to the use of the written communication, particularly when taken out of the context in which it is intended to be used. An auditor may consider informing the entity that the written communication is not intended for distribution to parties other than those specified in the written communication. Comments on the ED are due by April 29, 2011. The ASB will discuss comments received on the ED at its July 2011 meeting.

SEC Filings (Staff Liaison: Andy Mrakovcic; Task Force Chair: John A. May). This task force has redrafted AU section 711, *Filings Under Federal Securities Statutes*, to apply the ASB's clarity drafting conventions. Unlike most other auditing standards that are being converged with a corresponding ISA, there is no ISA that corresponds to AU section 711. At its January 2011 meeting, the ASB voted to ballot a revised draft of the proposed SAS for issuance as a final standard; the SAS will be released in late March 2011.

Service Organizations Guide (Staff Liaison: Judith Sherinsky; Task Force Chair: Joseph Griffin).

This task force is revising the AICPA Audit Guide, *Service Organizations*, to reflect the issuance of SSAE No. 16 *Reporting on Controls at a Service Organization* which supersedes the guidance for service auditors in AU section 324, *Service Organizations*. The members of the task force are practitioners who perform service auditors' engagements and are developing guidance designed to help practitioners implement the new standard. For additional information about the guide, see the article, "Service Organization Control (SOC) Reports" on page 2.

Sustainability (Staff Liaison: Judith Sherinsky; Task Force Chair: Beth Schneider) The Sustainability Task Force focuses on engagements in which a CPA reports, under Statements on Standards for Attestation Engagements, on matters related to sustainability. The task force is currently developing a draft of an ASB comment letter on the January 2011 exposure draft of the proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*. In February 2010, the task force submitted responses to questions in the IAASB's Consultation Paper, "Assurance on a Greenhouse Gas Statement," a document designed to obtain feedback from the public prior to issuing the proposed ISAE as an exposure draft. In April 2010 the task force developed suggested input for the ASB's comment letter on Version 2 of The Climate Registry's General Verification Protocol (GVP). The GVP protocol is designed to provide standards for performing independent verifications of annual GHG emissions reported to the Registry.

In September 2003, a joint task force of the ASB and the Canadian Institute of Chartered Accountants issued Statement of Position 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.

Other Activities

Accounting and Review Services Committee (ARSC) (Staff Liaison: Mike Glynn; Committee Chair: Carolyn H. McNerney). The ARSC is the senior technical committee of the AICPA designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of nonpublic entities. The charge of the ARSC is to develop and communicate, on a continuing basis, comprehensive performance and reporting standards as well as practice guidance that enable practitioners to provide high quality, objective, compilation and review services that serve the profession, clients, and the general public. The ARSC accomplishes this objective by developing compilation and review standards, timely responding to the need for guidance, and clearly communicating such guidance to the profession and users of financial statements.

In January 2011, the ARSC issued Statement on Standards for Accounting and Review Services (SSARS) No. 20, *Revised Applicability of Statements on Standards for Accounting and Review Services*. SSARS No. 20 revises paragraph .01 of AR section 90, *Review of Financial Statements*, to exclude from the applicability of SSARSs, engagements to review interim financial statements when the accountant has audited the entity's latest annual financial statements, it is expected that the current year financial statements will be audited, and the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review

In November 2010, the ARSC issued an exposure draft of a proposed SSARS *The Use of the Accountant's Name in a Document or Communication Containing Unaudited Financial Statements*

That Have Not Been Compiled or Reviewed which creates new paragraphs in AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*. The proposed SSARS addresses the accountant's responsibilities when he or she permits the use of his or her name in a document or written communication containing unaudited financial statements that have not been compiled or reviewed. Comments are due by April 29, 2011. The ARSC will discuss the comments received at its meeting in May 2011.

The ARSC is currently undergoing a project to clarify the SSARSs literature in accordance with the ASB's clarity drafting conventions. During the clarity process, the ARSC will reexamine the SSARSs literature and refine the SSARSs as needed. The ARSC has deferred converging its standards with the IAASB's international compilation and review literature until the IAASB completes its ongoing revision of that literature.

The next meeting of the ARSC will be on May 10-12, 2011 in Orlando, FL. [Highlights](#) of past and current ARSC meetings are available on the Audit and Attest Standards Web site

Auditing Standards Committee of the American Accounting Association (AAA) (ASB/AICPA Liaisons: Mark Taylor and Chuck Landes). The Auditing Standards Committee of the AAA is charged with fostering interaction between the AAA's Auditing Section and auditing standard-setting bodies such as the AICPA's ASB. The ASB supports strengthening its relationship with the academic community as well as increasing that community's participation in the standard-setting process. The current chair of the AAA's Auditing Standards Committee is Joe Brazel of North Carolina State University.

International Auditing and Assurance Standards Board (IAASB) (U.S. Member: William Kinney; U.S. Technical Advisor: Chuck Landes). The next meeting of the IAASB will be on March 15-19, 2010 in New York, NY. Copies of the International Federation of Accountants' outstanding exposure drafts, final auditing, assurance, related services, and quality control standards, and information about attending IAASB meetings, which are open to the public, can be found at <http://www.ifac.org/iaasb/>

Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy. (Staff Liaison: Erin Mackler, Judith Sherinsky; Task Force Chair: Chris Halterman) The AICPA's Assurance Services Executive Committee's and the ASB are developing a guide that addresses engagements to report on controls at a service organization relevant to the security, availability, or processing integrity of a system, or the confidentiality or privacy of the information processed by the system. Additional information about this project is contained in the article on page 2 "Service Organization Control (SOC) Reports."

Auditing Standards Board Agenda

Codes: DI—Discussion of issues, DD—Discussion of draft document, DP—Vote to approve a discussion paper for public distribution, ED—Vote to ballot a document for exposure, CL—Discussion of comment letters, FS—Vote to ballot a standard for finalization, FI—Vote to ballot a document for final issuance, SU—Status Update, WD—Withdrawal.

May 3-5, 2011 Las Vegas, Nevada	
Project	Expected ASB Action
Financial Statements for Use in Other Countries	CL
Interim Financial Information	FS
Letters for Underwriters	FS
Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements	FS

Recently Issued and Approved Documents

Statements on Auditing Standards (SASs)

Title (Product Number)	Issue Date
SAS No. 121, <i>Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information</i> (0607121) Effective for interim reviews of interim financial information for periods beginning after December 15, 2011. Early application is permitted.	February 2011
SAS No. 120, <i>Required Supplementary Information</i> (060715) Effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.	February 2010
SAS No. 119, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i> (060714) Effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.	February 2010
SAS No. 118, <i>Other Information in Documents Containing Audited Financial Statements</i> (060713) Effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.	February 2010

Title (Product Number)	Issue Date
SAS No. 117, <i>Compliance Audits</i> (060712) Effective for compliance audits for fiscal periods ending on or after June 15, 2010. Earlier application is permitted.	December 2009

Interpretations of Statements on Auditing Standards

Title	Issue Date
Interpretations of AU Section 325, Communicating Internal control Related Matters in an Audit	
Communicating Deficiencies in Internal Control Over Compliance in an Office of Management and Budget Circular A-133 Audit	Issued June 2007; Revised March 2010
Communication of Significant Deficiencies and Material Weaknesses Prior to the Completion of the Compliance Audit for Participants in Office of Management and Budget Single Audit Pilot Project	Issued November 2009; Revised: March 2010
Communication of Significant Deficiencies and Material Weaknesses Prior to the Completion of the Compliance Audit for Auditors That Are Not Participants in Office of Management and Budget Pilot Project	Issued November 2009; Revised: March 2010
Appropriateness of Identifying No Significant Deficiencies or No Material Weaknesses in an Interim Communication	Issued November 2009; Revised: March 2010

Statements on Standards for Attestation Engagements (SSAEs)

Title (Product Number)	Issue Date
SSAE No.17, <i>Reporting on Compiled Prospective Financial Statements When the Practitioner's Independence is Impaired</i> 0230317 Effective for compilations of prospective financial statements for periods ending on or after December 15, 2010. Early application is permitted.	December 2010
SSAE No. 16, <i>Reporting on Controls at a Service Organization</i> (023035) Effective for service auditor's reports for periods ending on or after June 15, 2011. Earlier implementation is permitted.	April 2010

Interpretations of Statements on Standards for Attestation Engagements

Title	Issue Date
Interpretation of AT Section 101, <i>Attest Engagements</i> Including a Description of Tests of Controls or Other Procedures and the Results Thereof, in an Examination Report	July 2010

Statements on Quality Control Standards (SQCSs)

Title (Product Number)	Issue Date
SQCS No. 8, <i>A Firm's System of Quality Control</i> (Redrafted) (067026) Effective as of January 1, 2012. Early application is permitted.	November 2010

Statements on Standards for Accounting and Review Services (SSARSs)

Title (Product Number)	Issue Date
SSARS No. 20, <i>Revised Applicability of Statements on Standards for Accounting and Review Services</i> (0606520) Effective for reviews of financial statements for periods beginning after December 15, 2011. Early application is permitted.	February 2011

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