
Auditing Standards— Convergence or Divergence?

National Intergovernmental Audit Forum

May 2, 2007

***George A. Rippey, Deputy Assistant IG for Audit
US Department of Education
Office of Inspector General***



Objectives

- ◆ Discuss Current State of U.S. Auditing Standards
- ◆ Discuss AICPA's Convergence Activities and Plan
- ◆ Discuss AICPA's Clarity Discussion Paper



Current State of U.S. Auditing Standards

◆ Issuers

- PCAOB adopted AICPA Standards as of April 2003 as interim standards
 - Auditing Standards (through SAS 101)
 - Attestation Standards (through SSAE 12)
 - Quality Control Standards
 - Ethics Standards



PCAOB Auditing Standards

- Auditing Standards (AS) 1– 4
 - AS-1 References in Reports to PCAOB
 - AS-2 Audit of Internal Control over Financial Reporting
 - AS-3 Audit Documentation
 - AS-4 Reporting on Whether a Previously Reported Material Weakness Continues to Exist
- Rule 3101
- Quality Control Related Rules



Current State of U.S. Auditing Standards

- ◆ Non-issuers (Auditing Standards Board)
 - SAS 102 Defining Professional Responsibilities
 - SAS 103 Audit Documentation
 - SAS 104-111 Audit Risk Standards
 - SAS 112 Communicating Internal Control Deficiencies
 - SAS 113 2006 Omnibus Standard
 - SAS 114 Auditor's Communication with those Charged with Governance



Major Differences

- ◆ Audit of Internal Control
- ◆ References in Auditor's Reports
- ◆ Concurring Review
- ◆ Risk Assessment Standards



Exposure Drafts

PCAOB

- ◆ An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements
- ◆ Evaluating Consistency Of Financial Statements and Proposed Amendments To Interim Auditing Standards

ASB

- ◆ AT 501 - Reporting on an Entity's Internal Control over Financial Reporting
- ◆ Amendment to Statement on Standards No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, for Nongovernmental Entities



AICPA International Convergence Plan

- ◆ Adopted an official position of *ISA* BASE*
 - ASB has aligned its agenda with the International Auditing and Assurance Board (IAASB)
 - ASB standard (SAS) projects will be developed concurrently with new ISAs
 - Exceptions made in situations where national standards for non-issuers are needed to be created or amended as a result of national circumstances
 - *ISA BASE* means new SASs use the ISA, including the international convention for wording, as the base standard
 - Modifications only where deemed necessary to better serve the needs of U.S. users of audited financial statements of non-issuers or where appropriate for U.S. legal and regulatory reasons.

*International Standards on Auditing



AICPA Convergence Plan (Continued)

- ◆ ASB to provide considerable support and resources, both voluntary members and staff to the development of new and revised ISAs:
 - ASB members will work directly with IAASB task forces on the development of the ISA to serve as the basis for a SAS.
 - ASB will attempt to have its members directly involved on IAASB task forces and will create its own task forces to help support IAASB task forces or where U.S. modifications are being considered.
 - The AICPA Audit & Attest Standards staff will increase its participation in IAASB projects.



AICPA Convergence Plan (Continued)

- ◆ ASB task forces on a “going forward basis” will be organized to consist typically of fewer members.
 - Task forces will generally consist of 2 – 3 ASB members or other subject matter experts, supported by an audit and attest technical manager.
 - Responsible for following the progress of the IAASB task force (with one of the members on the IAASB task force) and for developing and leading the ASB’s position and debate on the project.



AICPA Convergence Plan (Continued)

- ◆ Reorganize its standing international auditing standards subcommittee to manage and oversee the internationalization of audit/attest standards.
- ◆ The Audit Issues Task Force (AITF) of the ASB to be more involved with IAASB audit standard setting projects.
 - AITF or other ASB members should serve as leaders in terms of issues identification and project participation in the setting of ISAs.



Improving the Clarity of ASB Standards

- ◆ Will Further Convergence
- ◆ Phase I – Defining Professional Responsibilities (SAS 102 and SSAE 13)
- ◆ Phase II – Restructuring and Reformatting the Standards
- ◆ Discussion Paper



Structure of Standards

Current Structure

- ◆ Overall objective of the audit
- ◆ 10 GAAS Standards
- ◆ Requirements of Individual SASes

Proposed Structure

- ◆ Overall objective of the audit
- ◆ Overall objective of the auditor
- ◆ 10 GAAS Standards
- ◆ Objectives of the SASes
- ◆ Requirements of the SAS



Improving Readability and Understandability

- ◆ Proposed Structural Changes to SASs
 - Introductory Section
 - Scope
 - Effective Date
 - Other essential material
 - Objective of the SAS
 - Definitions in a Separate Section
 - Requirements of the Standards Easily Identifiable



Improving Clarity Project

- ◆ Special Considerations in Audits of Public Sector Entities and Small Entities
- ◆ Glossary of Terms
- ◆ Other Issues
- ◆ Deadline for comment – June 15, 2007



Summary

- ◆ There are a few areas of divergence now
- ◆ ASB goal is harmonization with international standards
- ◆ U.S. Standards for non-issuers to be based on ISAs
- ◆ Differ only when needed to better serve the needs of U.S. users or where appropriate for legal and regulatory reasons.
- ◆ Avoid unneeded differences with PCAOB
- ◆ Effort underway to improve the clarity of the standards



Questions?

