

Auditing and Accounting Update February 12, 2013

Auditing Update

Clarity Project

- The ASB has redrafting all auditing standards in a format that clearly identifies:
 - Introduction
 - Objectives
 - Definitions
 - Requirements
 - Application and other explanatory material
- Another goal is convergence of U.S. GAAS with auditing standards of the International Auditing and Assurance Standards Board (IAASB)
- All clarified SASs, SAS 122 issued containing all clarified SASs in codified format
- Effective date for SAS 122 is for audits of financial statements for periods ending on or after December 15, 2012

Independent Auditors Report

- AICPA has finalized a clarified SAS, *Forming an Opinion and Reporting on Financial Statements*
- Will supersede the auditor's report in use since 1988 (SAS No. 58)
- New report format
 - Introductory paragraph
 - Management's responsibility for the financial statements
 - Auditor's responsibility
 - Opinion

Communicating Internal Control and Related Matters

- AICPA has finalized a clarified SAS, *Communicating Internal Control Related Matters Identified in an Audit*
- Adds two new requirements to SAS No. 115
 - Include in the written communication an explanation of the potential effects of the significant deficiencies or material weaknesses identified in order for management and those charged with governance to take appropriate remedial action
 - Communicate, in writing or orally, only to management, other deficiencies in internal control that, in the auditor's judgment, are of sufficient importance to merit management's attention

Government Auditing Standards

- The final version of *Government Auditing Standards* ("Yellow Book") was issued in December 2011
- The effective date for financial audits and attestation engagements is for periods ending on or after December 15, 2012
- Same effective date as for the Clarity Project
- Early implementation is not permitted

- Consolidates and reorganizes the foundation and ethical principles of government audits
- Adds conceptual framework approach for independence
 - Effective January 1, 2012
- Updates financial audit standards to reflect updates to auditing standards issued by AICPA
- More clearly identifies requirements and guidance that supplement AICPA requirements for financial audits

Compliance Audits

- SAS No. 123, *Omnibus Statement on Auditing Standards – 2011*
- Effective for periods ending on or after December 15, 2012
- Amends SAS No. 117 to conform the auditor's report on compliance with the requirements of SAS No. 122, section 700, *Forming an Opinion and Reporting on Financial Statements*, including:
 - A section with the heading "Management's Responsibility"
 - A section with the heading "Auditor's Responsibility"
- SAS No. 123 addresses situations when the auditor becomes aware that the client is subject to an audit requirement that is not encompassed in the terms of the engagement, e.g., an audit performed in accordance with
 - *Government Auditing Standards*
 - OMB Circular A-133

Restricted Use Communications

- SAS No. 125, *Alert that Restricts the Use of the Auditor's Written Communication*
- Supersedes SAS No. 87
- Requires the auditor to restrict the use of the auditor's written communication under certain specified circumstances
- Language is consistent with current auditing standards
- Makes clear that the auditor is not responsible for controlling, and cannot control, distribution of the auditor's written communication after its release
- When the engagement is also performed in accordance with *Government Auditing Standards*, different alert language is used, i.e., a purpose alert instead of a restriction alert
 - Describes the purpose of the communication and states that the communication is not suitable for any other purpose
- Pay careful attention to the effective date
 - Effective for the auditor's written communications related to the audits of financial statements for periods ending on or after December 15, 2012
 - For the other engagements conducted in accordance with GAAS, effective for the auditor's written communications **issued** on or after December 15, 2012
- For single audit reports issued after 12/15/12, the new wording must be used
 - Could affect 6/30/12 audits

Going Concern

- SAS No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
- Supersedes SAS No. 59, but does not change or expand the requirements of SAS. No 59 in any significant respect
- Addresses the auditor's responsibilities in an audit of financial statements with respect to evaluating whether there is substantial doubt about the entity's ability to continue as a going concern

Accounting Update

Audit & Accounting Guide

- The AICPA has issued the 2012 edition of the Audit and Accounting Guide, *Not-for-Profit Entities*
- Includes accounting and auditing guidance contained in official pronouncements issued through March 1, 2012
- Has been conformed to reflect the FASB *Accounting Standards Codification*

Audit Risk Alert

- The AICPA has issued the 2012 edition of the Audit Risk Alert, *Not-for-Profit Entities*, which discusses
 - Economic and industry developments
 - Legislative and regulatory developments
 - Audit and attestation issues and developments
 - Accounting issues and developments

Leases

- Joint project of FASB and IASB
- Proposed ASU issued in August 2010
- Revised Exposure Draft expected in 4th quarter of 2012
- Standard likely to be finalized in late 2013
- Effective date likely not until 2016 with a two-year delay for nonpublic entities
- Right of use accounting model for both lessees and lessors

Multi-Employer Plans

- ASU No. 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan*
- For nonpublic entities, effective for years ending after December 15, 2012
- Multiemployer plans include pension plans and other postretirement benefit plans
- Requires expanded disclosures by an entity for each significant multiemployer plan, including:
 - Contributions made to each significant plan and to all plans in the aggregate
 - Whether the employer's contributions represent more than 5% of total contributions to the plan by all contributing employees
 - Expiration date(s) of collective bargaining agreements and any minimum funding arrangements
- Requires local chapters of not-for-profit entities that participate in their national organization's single-employer defined benefit pension plan to provide the name of the plan in which the employer participates

