

Questions and Answers on Redrafted Risk Assessment Standards

At its October 27-30, 2008 meeting, the AICPA's Auditing Standards Board (ASB) voted to approve for exposure certain of its risk assessment standards redrafted as part of its clarity project. As a result, the proposed risk assessment standards have been redrafted into a format that clearly identifies objectives, relevant definitions, requirements, and application and other explanatory material. They will be released in January 2009.

Q. Which standards are going to be exposed?

A. Six proposed Statements on Auditing Standards (SASs) will be released for public comment:

1. Proposed SAS, *Audit Evidence* (Redrafted): Supersedes SAS No. 106, *Audit Evidence*
2. Proposed SAS, *Materiality in Planning and Performing an Audit* (Redrafted): Supersedes SAS No. 107, *Audit Risk and Materiality in Planning an Audit*
3. Proposed SAS, *Planning an Audit* (Redrafted): Supersedes SAS No. 108, *Planning and Supervision*
4. Proposed SAS, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (Redrafted): Supersedes SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
5. Proposed SAS, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (Redrafted): Supersedes SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
6. Proposed SAS, *Evaluation of Misstatements Identified During the Audit* (**new**)

Q. What are the currently effective risk assessment standards about?

A. Developed as a result of research conducted by the accounting and auditing profession dating back to 1999, the ASB issued eight SASs (Nos. 104–111) in March 2006 that became effective for audits of financial statements for periods beginning on or after December 15, 2006. Together, the SASs provide extensive guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. The SASs also establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the

audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

Q. What is the Clarity Project?

A. To aid CPAs' understanding of generally accepted auditing standards (GAAS) and to improve compliance with their requirements, the ASB in 2004 launched a significant effort to make U.S. GAAS easier to read, understand and apply. The International Auditing and Assurance Standards Board is nearing completion on a similar project to clarify its International Standards on Auditing (ISAs). The ASB is converging U.S. GAAS with the ISAs while avoiding unnecessary conflict with Public Company Accounting Oversight Board (PCAOB) standards. In 2007, clarity drafting conventions were developed and are being applied to all standards issued by the ASB after January 2008. All auditing standards are being redrafted over the next three years.

Q. Once finalized, when will the ASB's clarified risk assessment standards become effective?

A. The effective date is expected to apply to audits of financial statements for periods beginning on or after December 15, 2010. This date is provisional, but will not be earlier than December 15, 2010. The ASB believes having a single effective date for all redrafted auditing standards will ease the transition to—and implementation of—the redrafted standards. The date will be selected to allow enough time for finalization of the standards as well as training in and updating of firm methodologies.

Q. How do the ASB's proposed risk assessment standards compare to the PCAOB's proposed risk assessment standards?

A. On October 21, 2008, the PCAOB proposed changing its auditing standards related to the auditor's assessment of, and response to, risk. In general, the PCAOB's proposed standards are consistent with the ASB's proposed standards. Where there are differences, they generally are due to the PCAOB *a)* moving fraud risk procedures from its SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, into the risk standards; and *b)* addressing integrated audits, a requirement that applies only to certain public companies.

Q. Why are the ASB's proposed risk assessment standards more voluminous than the PCAOB's?

A. The PCAOB's proposed standards do not contain the extent of application and other explanatory material as the redrafted risk assessment standards do. Application guidance is helpful to auditors by providing additional content and providing illustrative examples to support the requirements.

Q. Do I need to read both sets of proposed risk assessment standards (the ASB's and the PCAOB's)?

A. In developing comment letters, AICPA members may wish to review the ASB's proposed redrafted risk assessment standards and comment on both PCAOB and ASB exposure drafts simultaneously. The PCAOB's comment period ends February 18, 2009.

Q. How can I get more information about the Audit and Attest team's activities?

A. For more information, visit the AICPA's dedicated Web site at: <http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/>.