



CAQ Alert #2009-09 – January 29, 2009

## DEAR CENTER MEMBERS

### [PCAOB Issues Staff Guidance on Auditing Internal Control Over Financial Reporting in Smaller Public Companies](#)

On January 23, 2009, the [Public Company Accounting Oversight Board](#) (PCAOB or the Board) issued a 62-page publication entitled, [Staff Views An Audit of Internal Control Over Financial Reporting That Is Integrated With An Audit of Financial Statements: Guidance For Auditors of Smaller Public Companies](#) (the Guidance). The PCAOB's objective in issuing the Guidance is to help auditors apply the provisions of PCAOB's [Auditing Standard No. 5, \(AS 5\) An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements](#) to audits of smaller, less complex public companies.

#### *Background*

The Guidance was developed by the staff of the Board's Office of the Chief Auditor (OCA). In developing the Guidance, OCA organized a working group made up of auditors who have experience with audits of internal control over financial reporting (ICFR) in smaller, less complex public companies. The working group assisted the OCA in: 1) identifying issues that pose specific challenges in auditing ICFR in smaller, less complex public companies, 2) providing insights and examples of how they addressed such issues based on their experiences, and 3) assisting in drafting a preliminary version of the Guidance. The OCA also consulted with financial executives from smaller public companies.

Prior to the issuance of the Guidance, the PCAOB [issued](#) a preliminary draft for public comment on October 17, 2007. See [CAQ Alert #2007-55](#) for a summary of the PCAOB's preliminary guidance. The Board received 23 comments, including the Center for Audit Quality's (CAQ) [comment letter](#), that were considered in determining the final version, which clarified and enhanced the Guidance. See [CAQ Alert #2007-67](#) for a summary of the comment letter issued by the CAQ.

#### *Final Guidance*

The Guidance is not a rule of the Board and does not establish new requirements. All audits of internal control over financial reporting are expected to comply with the requirements of AS 5. The

Guidance consists of eight chapters and two appendices including Appendix B, *Discussion of Comments Received on the Preliminary Staff Views*, which discusses the comments received and related changes made in developing the final Guidance. The chapters and appendices include:

- Chapter 1 (pages 6-11) – Scaling the Audit for Smaller, Less Complex Companies
- Chapter 2 (pages 12-17) – Evaluating Entity-Level Controls
- Chapter 3 (pages 18-23) – Assessing the Risk of Management Override and Evaluating Mitigating Actions
- Chapter 4 (pages 24-26) – Evaluating Segregation of Duties and Alternative Controls
- Chapter 5 (pages 27-34) – Auditing Information Technology Controls in a Less Complex Information Technology Environment
- Chapter 6 (pages 35-38) – Considering Financial Reporting Competencies and Their Effects on Internal Control
- Chapter 7 (pages 39-43) – Obtaining Sufficient Competent Evidence When the Company Has Less Formal Documentation
- Chapter 8 (pages 44-48) – Auditing Smaller, Less Complex Companies with Pervasive Control Deficiencies
- Appendix A (pages 49-54) – The Integrated Audit Process
- Appendix B (pages 55-62) - Discussion of Comments Received on the Preliminary Staff Views

Additionally, the final Guidance contains references that: (1) the user of the Guidance should be familiar with; and (2) identifies additional publications that provide more information, which may be relevant to the audit of internal control over financial reporting. These references consist of the following:

**References Assumed to be Familiar to the User:**

- [Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements](#)
- Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), [Internal Control – Integrated Framework](#)
- COSO, [Internal Control over Financial Reporting – Guidance for Smaller Public Companies](#) (June 2006)
- SEC Release No. 33-8810, Commission Guidance Regarding [Management's Report on Internal Control Over Financial Reporting Under Section 13\(a\) or 15\(d\) of the Securities Exchange Act of 1934](#) (June 20, 2007)

**Additional Publications Relevant to the Audit of Internal Control Over Financial Reporting:**

- SEC Release No. 33-8809, [Amendments to Rules Regarding Management's Report on](#)

[Internal Control Over Financial Reporting](#) (June 20, 2007)

- SEC Release No. 33-8829, [Definition of the Term Significant Deficiency](#) (August 3, 2007)
- SEC Release No. 33-8238, [Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports](#) (June 5, 2003)
- SEC Office of the Chief Accountant, Division of Corporation Finance, [Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports: Frequently Asked Questions](#) (September 24, 2007)

The above information is intended to represent a high-level summary of the [Guidance](#). Therefore, we encourage members to refer directly to the [Guidance](#) in its entirety.

#### Other Related Resources for Auditors:

[CAQ Alert #2007-67](#)

CAQ Submits Comment Letter on PCAOB Staff Guidance on Auditing Internal Control, December 20, 2007

[Comment Letter](#)

CAQ Comments on Preliminary Staff Views – An Audit of Internal Control That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies, December 17, 2007

[CAQ Alert #2007-55](#)

PCAOB Issues Guidance on Auditing Internal Control of Smaller Public Companies, October 22, 2007

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#### Stay Informed

As a member of the Center, your firm will receive periodic updates on important developments related to the PCAOB and the SEC, as well as the activities of the Center, particularly with respect to the submission of comment letters on PCAOB and SEC proposals. To stay abreast of these and other relevant events in public company audit practice, please visit the Center Web site at [theCAQ.aicpa.org](#). Also, we welcome any suggestions or questions - please send them by email to [center@theCAQ.org](mailto:center@theCAQ.org).

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