New Auditor Report Standards
(NARS4)

KAPLAN

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NEW AUDITOR REPORT STANDARDS (NARS4)

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Unit 1

SAS 134: *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- Identify the changes in the reporting model
  - Modifications
  - Replacements
  - Additions to guidance
- Review examples of auditor's reports
  - Exhibits of format and content of auditor's reports
  - Understand relocation of items in report
  - Focus on setting users' expectations
- Identify key audit matters (KAMs)

INTRODUCTION

SAS 134 was issued in May 2019 to improve the transparency and relevance of the communication in the auditor's report. Generally accepted auditing standards (GAAS) will now be more consistent with the International Auditing Standards (IAS).

SAS 134 addresses the auditor's responsibility to form an opinion on the financial statements. This SAS also discusses the auditor's responsibilities and the form and content of the auditor's report when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary, and when additional communications are necessary in the auditor's report.

EFFECTIVE DATE

The standard is effective for audits of financial statements for periods ending on or after December 15, 2021.

CHANGES

The new reporting standard has several significant changes to the form and content of the auditor's report.

SAS 134 supersedes the following sections:

- AU-C Section 700, Forming an Opinion and Reporting on Financial Statements
- AU-C Section 705, Modifications to the Opinion in the Independent Auditor's Report
- AU-C Section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report

SAS 134 adds new AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report* **when the auditor is engaged to do so**.

NOTE: What is the difference between Critical Audit Matters ("CAMs") for public entities and Key Audit Matters ("KAMs") for non-public entities besides a letter? Unlike critical audit matters for public entities, communicating key audit matters in the Independent Auditor's Report for non-public entities is NOT required.

SAS 134 is the first major overhaul of auditor reporting standards since the issuance of SAS 122. SAS 134 amends the following sections of SAS 122:

- Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards
- Section 210, Terms of Engagement
- Section 220, Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards

- Section 230, Audit Documentation
- Section 240, Consideration of Fraud in a Financial Statement Audit
- Section 260, The Auditor's Communication with Those Charged with Governance
- Section 300, Planning an Audit
- Section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- Section 320, Materiality in Planning and Performing an Audit
- Section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- Section 450, Evaluation of Misstatements Identified During the Audit
- Section 510, Opening Balances – Initial Audit Engagements, Including Reaudit Engagements
- Section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- Section 600, Special Considerations – Audits of Group Financial Statements Including the Work of Component Auditors
- Section 910, Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country
- SAS 134 also amends SAS 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.*

Practitioners should pay particular attention to the following:

1. The auditor's report is moved to the first section of the report.
2. The Basis for the Opinion section follows the report.
3. The Basis for the Opinion section is new and more focused on the obligations relating to independence and clarifies that there are ethical requirements of the audit engagement.
4. The section related to auditor's responsibilities is revised particularly as it relates to communications with those charged with governance. The section should be headed as "Auditor's Responsibilities for the Audit of the Financial Statements."
5. Improved reporting specific to the going concern issue is required. Management and the auditor's responsibilities are evaluating and considering the conditions that give rise to the entity's ability to continue as a going concern. AU-C Section 570 now includes a separate section when substantial doubt exists.

6. Section 701 has been added to address key audit matters (KAM). In determining, communicating, and documenting KAMs, a framework has been developed.

7. KAMs are not required by the standard; but, when engaged to communicate KAMs in the auditor's report, the framework must be utilized.

Basis for Opinion

SAS 134 requires that the Opinion section of the auditor's report (AU-C Section 700) precede the Basis for Opinion section***. The*** geography ***of this section has changed—the Opinion is in the beginning and no longer at the end.*** SAS 134 also describes the **Basis for Opinion section,** which is now required for audit reports, not just those with modified opinions. The Basis for Opinion section will set users' expectations for the auditor's report and will:

- State that the audit was conducted in accordance with Generally Accepted Auditing Standards (GAAS) and identify the United States as the country of origin of those standards;
- Refer to the section of the auditor's report that describes the auditor's responsibilities under GAAS;
- Include a statement that the auditor must be **independent** of the reporting entity and meet other ethical responsibility requirements; and
- State whether the auditor believes the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Auditor's Responsibilities

Additionally, the audit report includes an **expanded** description of the auditor's responsibilities relating to professional judgment and professional skepticism, and the auditor's communications with those charged with governance. These responsibilities include the following:

- Exercising professional judgment and **maintaining professional skepticism** throughout the audit
- Explaining the meaning of **reasonable assurance** and **material misstatements**
- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the reporting entity's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

- Concluding whether, in the auditor's judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the reporting entity's ability to continue as a going concern for a reasonable period ***(Note: All unmodified reports are now required to have a statement regarding going concern under both management and auditor responsibilities in the absence of substantial doubt as illustrated in the unmodified report in the next section.)***

- **Stating that the auditor must communicate with those charged with governance** regarding, among other matters, the planned scope and timing of the audit,* significant audit findings, and certain internal control-related matters that the auditor identified during the audit.

The auditor should communicate with those charged with governance an overview of the planned scope and timing of the audit, **which includes communicating about the significant risks identified by the auditor *(new for calendar year 2022 audits)***; this may be accomplished in the engagement letter or a pre-260 letter.

- Helps those charged with governance understand those matters and why they require special audit consideration

- Assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process

- Possible additional matters included in the communication regarding the planned scope and timing of the audit are detailed in the standard[1]

  - Disclosures in the Audit of Financial Statements

  - The auditor should evaluate whether:

    - The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor should consider the relevance of the accounting policies to the reporting entity and whether they have been presented in an understandable manner;

    - The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

    - The accounting estimates made by management are reasonable;

    - The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor should consider whether all required information has been included, and whether such information is appropriately classified, aggregated or disaggregated, and presented;

1 https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/au-c-00260.pdf

- The financial statements provide adequate disclosure to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- The terminology used in the financial statements, including the title of each financial statement, is appropriate.

EXHIBIT—ILLUSTRATIONS OF AUDITOR'S REPORTS ON FINANCIAL STATEMENTS2

Illustration 1: An Auditor's Report on Comparative Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general-purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C Section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C Section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.
- The auditor has not been engaged to communicate key audit matters.

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2 American Institute of Certified Public Accountants, Statement on Auditing Standards No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, issued May 2019.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Audit of the Financial Statement3

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

3 The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.

2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

3. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.[4]

4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

6. We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report are issued]

[Date of the auditor's report]

4 In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 2: An Auditor's Report on Comparative Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America, Including Communication of Key Audit Matters

Circumstances include the following:

- Audit of a complete set of general-purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C Section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor **has been engaged** to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements[5]

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were most significant in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with Section 701, Communicating Key Audit Matters in the Independent Auditor's Report, of this SAS]

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

5 The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.

2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

3. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.[6]

4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

6. We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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6 In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[*Signature of the auditor's firm*]

[*City and state where the auditor's report is issued*]

[*Date of the auditor's report*]

Illustration 3: An Auditor's Report on Financial Statements for a Single Year Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general-purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C Section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements7

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

7 The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.

2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

3. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.[8]

4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

6. We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

8 In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 4: An Auditor's Report on Financial Statements for a Single Year Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived from Audited Financial Statements for the Prior Year Is Presented

Circumstances include the following:

- Audit of a complete set of general-purpose financial statements (single year). The audit is not a group audit.
- Prior year summarized comparative financial information derived from audited financial statements is presented.
- Management is responsible for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C Section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements[9]

Opinion

We have audited the financial statements of XYZ Not-for-Profit Organization, which comprise the statement of financial position as of September 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of XYZ Not-for-Profit Organization as of September 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of XYZ Not-for-Profit Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Not-for- Profit Organization's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

9 The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.

2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

3. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed.[10]

4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Not-for-Profit Organization's ability to continue as a going concern for a reasonable period of time.

6. We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited XYZ Not-for-Profit Organization's 20X0 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 20X0. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 20X0, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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10 In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

AU-C Section 570 changes include circumstances when:

1. Use of the going concern basis of accounting is appropriate **but** conditions and events have been identified.

   If the auditor concludes that substantial doubt about the entity's ability to continue as a going concern remains, the auditor should include ***a separate section*** in the auditor's report with the heading ***"Substantial Doubt About the Entity's Ability to Continue as a Going Concern"*** that includes the following:

   a. Focus on the note in the financial statements that discloses

      - The conditions or events identified,
      - Management's plans that deal with these conditions,
      - That these conditions indicate that substantial doubt exists about the entity's ability to continue as a going concern, and
      - The period of time considered reasonable.

2. If adequate disclosure about an entity's ability to continue as a going concern **is not made** in the financial statements, the auditor should:

   a. Express a qualified opinion or adverse opinion in accordance with Section 705, *Modifications to the Opinion in the Independent Auditor's Report.*

   b. In the "Basis for Qualified (Adverse) Opinion" section of the auditor's report, state that

      - Substantial doubt exists about the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter, or
      - Substantial doubt about the entity's ability to continue as a going concern has been alleviated by management's plans, but the financial statements do not adequately disclose this matter.

EXHIBIT—ILLUSTRATIONS OF AUDITOR'S REPORTS RELATING TO GOING CONCERN11

Illustration 1—An Auditor's Report Containing an Unmodified Opinion and Includes a Going Concern Section When Management Is Required Under the Applicable Financial Reporting Framework to Include a Statement in the Notes to the Financial Statements That Conditions or Events Have Been Identified and Substantial Doubt Exists and Disclosure in the Financial Statements Is Adequate

The following circumstances are assumed:

- Audit of a complete set of financial statements prepared in accordance with FASB Accounting Standards Codification (ASC).
- The audit is not a group audit.
- The auditor has concluded that an unmodified opinion is appropriate.
- The auditor has concluded that substantial doubt remains and the disclosures of the conditions and management's plans are adequate.
- Management is required to disclose in the notes to the financial statements that conditions or events have been identified and substantial doubt exists.

11 American Institute of Certified Public Accountants, Statement on Auditing Standards No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, issued May 2019.

Independent Auditor's Report

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Going Concern section is presented immediately after the Basis for Opinion of the Auditor's Report section.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern.

Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Illustration 2—An Auditor’s Report Containing an Unmodified Opinion and Includes an Emphasis-of-Matter Paragraph Because Substantial Doubt Has Been Alleviated

The following circumstances are assumed:

- Audit of a complete set of financial statements prepared in accordance with FASB ASC.
- The audit is not a group audit.
- Management has disclosed conditions, when aggregated, that raise substantial doubt about the entityentity prepared in accordance with FASB AS
- Management has disclosed its evaluation of the significance of those conditions in relation to the entity Substantial Doubt Has Been AlleviatManagement has disclosed that the substantial doubt about the entity’s ability to continue as a going concern has been alleviated by management’s plans.
- The auditor has concluded that managementtial doubt about the entity’s

Independent Auditor's Report

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Emphasis-of-Matter

As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note X. Our opinion is not modified with respect to this matter.

NOTE: Provided that the situation is adequately disclosed in the notes to the financial statements, an emphasis-of-matter paragraph is optional in the auditor's report when substantial doubt has been alleviated.

COMMUNICATING KEY AUDIT MATTERS

When Auditor is Engaged to Communicate Key Audit Matters

AU-C Section 701 has been added to provide guidance on the auditor's responsibility to communicate key audit matters in the auditor's report **when the auditor is engaged** to do so. It addresses the auditor's judgment about:

a. What to communicate in the auditor's report, and

b. The form and content of such communication.

However, it **does not require** the communication of key audit matters. In circumstances where an adverse or qualified opinion is issued, AU-C Section 705 prohibits the auditor from communicating key audit matters except in cases where it is required to be reported by law or regulation.

What Would Constitute Key Audit Matters?

Key audit matters are described as those matters that are **the most significant** in the current period audit of the financial statements. Of the matters communicated with those charged with governance, professional judgment of the auditor will determine which of these matters are the most significant.

While the auditor is not required to update key audit matters from a prior audit, reviewing those matters might provide insight in the current audit period and the matters may be a continuing key audit matter.

The process the auditor should consider might include the following:

a. Choose from matters communicated with those charged with governance

b. Of those matters, determine if any have required significant attention in performing the audit

c. From that group of matters, the auditor would identify those that were the most significant

d. Consider matters throughout the audit

Key audit matters are circumstances that required significant auditor attention. This could include the following:

- Requiring the auditor to change audit strategy
- Reallocating resources
- Extent of the effort required by senior personnel
- Requiring expertise of specialized area of accounting

For example:

- Complex areas where auditor is challenged to obtain sufficient appropriate audit evidence:
  - Acquisition of intangible assets
  - Hedging transactions
  - Implementation of new standard
  - Related party transactions
- Areas that required significant judgments where auditor is challenged in forming an opinion on the financial statements:
  - Investments
  - Inventory
  - Fraud risk
  - Regulatory changes

Note: Consider that many items may include matters that are relevant to the audit but may not be required to be disclosed. Examples might include the following:

- How would the implementation of a new IT system or even a significant change to the current system affect the audit attention on the strategy?
- Would modifying a system for implementation of revenue affect the fraud risk factor of revenue recognition?
- Would the identification of significant risks require more specialized expertise?

Caution: A lengthy list of key audit matters is not the objective; only those matters that are the most significant.

Communicating key audit matters in the auditor's report is done in the context of forming an opinion on the financial statements as a whole. It **does not** mitigate or provide a substitute for the following:

a. *Required disclosures in the financial statements.*

b. Any disclosure that would achieve fair presentation.

c. The auditor expressing a modified opinion when required to do so by AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report.*

d. For reporting in accordance with AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

e. A separate opinion on individual matters.

Determining Key Audit Matters

In determining the matters to be communicated with those charged with governance, the matters that required significant auditor attention in performing the audit should be considered, including the following:

a. Areas of higher assessed risk of material misstatement

b. Areas of significant risks that were identified

c. Areas that involved significant management judgment, including accounting estimates

d. Effect on the audit of significant events or transactions that occurred

e. The matters that were determined to be the most significant

Communicating Key Audit Matters

A separate section in the Auditor's Report titled "Key Audit Matters" should be placed in a prominent location in close proximity to the Opinion and Basis of Opinion sections.

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with Section 701, Communicating Key Audit Matters in the Independent Auditor's Report, of this SAS]

In communicating to those charged with governance, the auditor should:

a. Describe each key audit matter.

b. Use an appropriate subheading for each KAM under the heading "Key Audit Matters."

The introductory language in the KAM section of the auditor's report should state the following:

a. Key audit matters that, in the auditor's professional judgment, were of most significance.

b. The auditor does not provide a separate opinion on these matters as these matters were addressed in the context of the audit as a whole and in forming the auditor's opinion.

Key Audit Matters Not a Substitute for Expressing a Modified Opinion

AU-C Section 705 prohibits the auditor from communicating key audit matters when the auditor expresses an adverse opinion or disclaims an opinion on the financial statements.

Descriptions of Individual Key Audit Matters

Each key audit matter in the "Key Audit Matters" section should include a reference to any related disclosures and address the following:

a. Why the matter was determined to be a key audit matter. For example:

   – Describe the factors the auditor considered

   – Describe why the matter required significant auditor attention

   – Identify unique circumstances related to an industry

   – Changes in the business model or strategy

   – New or emerging accounting policies

b. How the matter was addressed in the audit.

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

The auditor should describe each key audit matter in the auditor's report unless either:

a. Law or regulation precludes the disclosure of the matter, or

b. The auditor determines that the matter should not be communicated in the auditor's report as the adverse consequences would outweigh the public interest benefits.

However, this would not apply should the information about the matter be available outside the entity.

Interaction Between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

When a qualified opinion or substantial doubt exists about an entity's ability to continue as a going concern, these matters are, by their nature, key audit matters. Neither of these circumstances should be described in the "Key Audit Matters" section of the auditor's report. In these circumstances, the auditor should:

a. Report on these matters in accordance with other AU-C sections.

b. Include a reference to the "Basis for Qualified Opinion" or "Going Concern" section in the "Key Audit Matters" section.

Communication with Those Charged with Governance of Key Audit Matters

The auditor should communicate the following with those charged with governance:

a. Those matters the auditor has determined to be the key audit matters

b. That the auditor has determined that there are no key audit matters to communicate

Note: If there are no key audit matters to communicate, or the only key audit matters communicated are those matters of a qualified opinion or going concern, a statement should be included under "Key Audit Matters" that the auditor has determined that there are no key audit matters to be communicated. The following language could be used:

> **Key Audit Matters**
>
> **Except for the matter described in the "Basis for Qualified Opinion" section of Going Concern section, we have determined that there are no (other) key audit matters to communicate in our report.**

Other Presentation Issues

Present "Key Audit Matters" section in the Auditor's Report close to the "Opinion" and "Basis for Opinion" sections.

Comparative statements should describe matters that relate to only the most current period under audit; however, could refer to any period covered by the financial statements.

How the Matter Was Addressed in the Audit

The detail included in the report to describe how the KAM was addressed in the audit is judgment by the auditor and may describe the following elements:

- The auditor's approach to address the matter
- A brief overview of procedures performed
- Result of the auditor's procedures
- Any relevant observations with respect to the matter
- Disclosures in the financial statements, if any
- Does not contain or imply discrete opinions on separate elements of the financial statements

Documentation

Audit documentation should include the following:

a. Matters that required significant auditor attention

b. The rationale for determination of a key audit matter

c. The rationale for determination that there are no key audit matters to communicate

d. The rationale for the determination not to communicate in the auditor's report a matter determined to be a key audit matter

e. Conclusions reached include determining the following:

   – The key audit matters to be communicated

   – The key audit matters that will not be communicated

   – That there are no key audit matters to be communicated

Unit 2

Statement on Auditing Standards 135: *Omnibus Statement on Auditing Standards—2019*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify changes to auditor responsibilities for additional communication with those charged with governance including the auditor's view related to:
  - Significant unusual transactions
  - Potential effects of uncorrected misstatements on future periods
- ☐ Understand additional procedures to related party relationships and transactions and consideration of fraud in a financial statement audit

INTRODUCTION

The omnibus statement was issued by the Auditing Standards Board (ASB) in conjunction with SAS 134 to align ASB guidance more closely with the Public Company Accounting Oversight Board (PCAOB). While amending multiple sections, the primary focus was on amending the following:

- AU-C Section 260, The Auditor's Communication with those Charged with Governance
- AU-C Section 550, Related Parties
- AU-C Section 240, Consideration of Fraud in a Financial Statement Audit

EFFECTIVE DATE

The effective date is for periods ending on or after December 15, 2021.

SIGNIFICANT CHANGES

AU-C, Section 260, *The Auditor's Communication with Those Charged with Governance*

Changes to AU-C Section 260 include guidance from PCAOB AS 1301 that is intended to improve the quality of audits for non-issuers of financial statements. The **required** communication with those charged with governance adds the following:

- The auditor's views related to **significant unusual transactions** could include:
  - Policies and practices management used to account for these transactions
  - Auditor's understanding of the business purpose
- Matters, that the auditor consulted outside the engagement team, that were contentious or difficult regarding the responsibility of those charged with governance to oversee the financial reporting process
- Potential effects of uncorrected misstatements on future periods
- Any matters underlying those uncorrected misstatements, even if immaterial to the period under audit, could potentially cause misstatements in future periods
- If management has communicated detailed information about matters that are required communication by the auditor, any omitted or inadequately described matter does not have to be communicated to those charged with governance as long as the auditor:
  - Participated in management's discussion with those charged with governance
  - Affirmatively confirmed with those charged with governance that management has adequately communicated these matters
- Audit documentation should include a copy or summary of management's communication provided to those charged with governance.

Application material has been added as guidance in:

- Communication of the possible implication of uncorrected misstatements
- Communication of complaints or concerns about accounting or auditing matters (that came to the attention of the auditor)
- Documentation of the communication

AU-C Section 550, *Related Parties*

Changes to AU-C Section 550, *Related Parties*, addresses the auditor's responsibilities with regard to related party relationships and transactions. SAS 135 adds and specifically expands procedures to focus on the transactions and relationships of related parties in the following areas:

- Understanding of the entity and its environment
- Assessing the risks of material misstatement
- Performing audit procedures to respond to the risks
- Evaluating the audit evidence obtained
- Consideration of fraud related to risk of misstatements

Understanding the entity adds inquiries of not only management **but others within the entity** concerning:

- The nature of the related party relationships including ownership structure
- Background information, (e.g., physical location, industry, size, and extent of operations)
- The business purpose for which the related party entered into the transaction as opposed to an unrelated party
- Any modifications or termination of transactions during the period and the type of business purpose for doing so

Assessing the risks of material misstatement should now include inquiries related to whether any of the related party transactions:

- Have not been authorized in accordance with the entity's policies and procedures
- Had exceptions granted to the policies and procedures
- When granted exceptions, what were the reasons for doing so

Note: The auditor is now required to consider significant unusual transactions that are identified as related party transactions as giving rise to significant risk.

In **performing audit procedures** to respond to the risks of material misstatements, the auditor should evaluate the following:

- Has the entity properly identified its related party relationships and transactions?
- To identify these relationships and transactions, has the auditor included procedures to test the accuracy and completeness?

- Have procedures on balances with affiliated entities been considered as of concurrent dates such as:
  - Has the underlying documentation been read to determine that terms and information are consistent with explanations and another audit evidence?
  - Has authorization been consistent with policies and procedures?
  - Has the transaction been accounted for properly?
  - Has adequate disclosure been made?

Evaluating the audit evidence obtained requires the auditor to remain alert for related party information when reviewing records or documents and consider the following:

- Confirming the business purpose taking into consideration the likelihood that the entity could influence the related party in their responses to the auditor
- Evaluating information about the financial capability of the parties to a transaction

AU-C Section 240, Consideration of Fraud in a Financial Statement Audit

AU-C Section 240 defines significant unusual transactions as:

> *Significant transactions that are outside the normal course of business for the reporting entity or that otherwise appear to be unusual due to their timing, size, or nature.*

Considering this definition:

- Adding to management's inquiries an inquiry regarding whether the reporting entity has entered into significant unusual transactions and, if so, the nature, terms, and business purpose (or the lack thereof) of those transactions and whether such transactions involved related parties.
- When an internal audit function exists at the reporting entity, the auditor should inquire as to whether the internal auditor is aware that the reporting entity has entered into any significant unusual transactions.
- Inquire of those charged with governance whether the reporting entity has entered into any significant unusual transactions.

- Evaluate whether the business purpose (or lack thereof) of significant unusual transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal the misappropriation of assets. Required procedures include
  - Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or lack thereof) of the transaction,
  - Determining whether the transaction has been authorized and approved in accordance with the reporting entity's established policies and procedures, and
  - Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements.

NOTES

Unit 3

Statement on Auditing Standards 136: *Forming an Opinion and Reporting of Employee Benefit Plans Subject to ERISA*

LEARNING OBJECTIVES

After completing this section, participants will be able to:

- Identify the changes in the reporting model for an employee benefit plan audit under ERISA
  - Modifications
  - Replacements
  - Additions to guidance
- Review examples of auditor's reports
  - Exhibits of format and content of auditor's reports
  - Understand relocation of items in report
  - Focus on setting users' expectations
- Identify key audit matters (KAMs)

INTRODUCTION

In July 2019, the AICPA Auditing Standards Board issued SAS 136 in the continuing effort to improve the communication value of the auditor's report for ERISA plan financial statements. The Department of Labor (DOL) has long advocated for increased transparency in reporting standards when management elects to exclude from the audit certain investment information held and certified by a qualified institution, which is permitted by ERISA. The redesign of the auditor's report should make it easier to understand and more relevant which will lead to improved employee benefit plan (EBP) audit quality.

New guidance for reporting and performance requirements will now be codified in new AU-C Section 703, *Forming an Opinion and Reporting on ERISA Plan Financial Statements*, which replaces AU-C Section 700 for ERISA plans. The SAS only applies to audits of employee benefit plans that are subject to ERISA. AU-C Section 703 is not all inclusive as the other AU-C sections apply except when specifically noted in the standard. Plans that are subject to ERISA whether a single employer, multiple employers, or multiemployers are affected.

The DOL, IRS, and the Pension Benefit Guaranty Corporation (PBGC) jointly developed the Form 5500 series so EBPs could use the Form 5500 series forms to satisfy annual reporting requirements under Title I and Title IV of ERISA and the IRC. The Form 5500 series is part of ERISA's overall reporting and disclosure framework, which is intended to assure that EBPs are operated and managed in accordance with certain prescribed standards and that participants and beneficiaries, as well as regulators, are provided or have access to sufficient information to protect the rights and benefits of participants and beneficiaries under EBPs. The Form 5500 series includes Form 5500, Annual Return/Report for Employee Benefit Plan, and related schedules (hereinafter referred to as Form 5500).

AU-C Section 703 amends:

- SAS 119, as amended [AICPA, Professional Standards, AU-C Section 725];
- Various sections in SAS 122, *Statements on Auditing Standards: Clarification and Recodification, as amended* [AICPA, Professional Standards, AU-C Sections 220, 240, 330, 450, 501, 510, 540, 550, 560, 580, and 708];
- SAS 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* [AICPA, Professional Standards, AU-C Section 570];
- Section 220, *Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards;*
- Section 240, *Consideration of Fraud in a Financial Statement Audit;*
- Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained;*
- Section 450, *Evaluation of Misstatements Identified During the Audit;*
- Section 510, *Opening Balances – Initial Audit Engagements, Including Pre-audit Engagements;*
- Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures;*

EFFECTIVE DATE

The standard is effective for audits of financial statements for periods ending on or after December 15, 2021. Upon initial implementation of the SAS, transitional implementation reporting guidance is provided in Exhibit B of the standard, "Implementation Guidance for ERISA Section 103(a)(3)(C) Audits." This guidance can be found at

https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-136.pdf.

WHAT IS DIFFERENT?

1. Significant changes were made to the form and content of the auditor's report letter, which now will align with SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, and SAS 135, *Omnibus Statement on Auditing Standards-2019.*

2. Emphasis in report letter of permitted election by ERISA when management elects to exclude certain investment information held and certified by a qualified institution.

3. "Limited scope" audit will now be referred to as an "ERISA Section 103(a)(3)(C)" audit.

4. Areas of new and/or expanded requirements include:

    a. Engagement acceptance

    b. Audit risk assessment and response which includes consideration of plan provisions

    c. Forming an opinion on ERISA financial statements

    d. Reporting on ERISA required supplemental schedule including performing specific procedures

    e. Communication with those charged with governance of reportable findings that have been identified

    f. Written representations requested from management

    g. Considerations for Form 5500, *Annual Return*

    h. Communicating key audit matters

FORM AND CONTENT

Practitioners should pay particular attention to:

- The Scope and Nature of ERISA Section 103(a)(3)(C) Audit Section is presented first.
- The Auditor's Opinion section follows the Scope and Nature section.
- The Basis for the Opinion section follows the Auditor's Opinion section.
- The Basis for the Opinion section is new and more focused on the obligations relating to independence and clarifies that there are ethical requirements of the audit engagement.

The section related to auditor's responsibilities is revised particularly as it relates to communications with those charged with governance. The section should be headed as "Auditor's Responsibilities for the Audit of the Financial Statements." It makes clear that the ERISA Section 103(a)(3)(C) audit does not include the certified investment information with the exception of certain procedures.

- Improved reporting specific to going concern issue is required. Management and the auditor's responsibilities are in evaluating and considering the conditions that give rise to the entity's ability to continue as a going concern. AU-C Section 570 now includes a separate section when substantial doubt exists.
- ERISA required supplemental schedules are required to be recorded in other-matter paragraph, non-ERISA Section 103(a)(3)(C) reports.

Note to practitioners: Firm methodologies and engagement team training will need to be reviewed when implementing this standard. In addition, users should be educated on the new form and content of the auditor's report.

ILLUSTRATION 1—AN AUDITOR'S REPORT ON FINANCIAL STATEMENTS FOR A DEFINED CONTRIBUTION RETIREMENT PLAN SUBJECT TO ERISA

Circumstances include:

- Audit of complete set of financial statements
- Management is responsible for the preparation of financial statements with GAAP
- Unmodified opinion
- No conditions that raise substantial doubt about continuing as a going concern
- Auditor has not been engaged to communicate key audit matters
- Report on ERISA required supplemental schedules is presented
- Form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA

Independent Auditor's Report

[Appropriate Addressee]

Opinion

We have audited the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework].*

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter—Supplemental Schedules Required by ERISA

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of *[identify title of supplemental schedules and periods covered]* are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for

Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

[Signature of the auditor's firm]

[City and state where the auditor's report is issued] [Date of the auditor's report]

ILLUSTRATION 2—AN AUDITOR'S REPORT ON FINANCIAL STATEMENTS FOR A DEFINED BENEFIT PENSION PLAN SUBJECT TO ERISA

Circumstances include:

- Audit of complete set of financial statements
- Information regarding the actuarial present value of accumulated plan benefits and changes is presented in separate statements within the financial statements
- Management is responsible for the preparation of financial statements with GAAP
- Unmodified opinion
- No conditions that raise substantial doubt about continuing as a going concern
- Auditor has not been engaged to communicate key audit matters
- The report on the ERISA required supplemental schedules is presented as an other-matter paragraph
- Form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA

Independent Auditor's Report

[Appropriate Addressee]

Opinion

We have audited the financial statements of XYZ Pension Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits and accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits and changes in its accumulated plan benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of XYZ Pension Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of XYZ Pension Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Pension Plan's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter – Supplemental Schedules Required by ERISA

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [identify title of supplemental schedules and periods covered] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

[Signature of the auditor's firm]

[City and state where the auditor's report is issued] [Date of the auditor's report]

ILLUSTRATION 3—AN AUDITOR'S REPORT ON FINANCIAL STATEMENTS FOR A DEFINED CONTRIBUTION RETIREMENT PLAN SUBJECT TO ERISA WHEN MANAGEMENT ELECTS AN ERISA SECTION 103(A)(3)(C) AUDIT

Circumstances include:

- Management has elected an ERISA Section 103(a)(3)(C) audit
- Auditor performed an ERISA Section 103(a)(3)(C) audit of complete set of financial statements
- Management is responsible for the preparation of financial statements with GAAP
- No limitations on the scope of the audit and auditor have not identified any material misstatements of the ERISA plan financial statements
- No conditions that raise substantial doubt about continuing as a going concern
- Auditor has not been engaged to communicate key audit matters
- The report on the ERISA required supplemental schedules is presented as an other-matter paragraph
- Form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA except for the information in the supplemental schedules agreed to/derived from the certified investment information
- The information in the supplemental schedules related to assets held and certified to by a qualified institution agreed to/derived from the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C)

Independent Auditor's Report

[Appropriate Addressee]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed audits of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). The financial statements comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

Management, having determined it is permissible in the circumstances, has elected to have the audits of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.

Opinion

In our opinion, based on our audits and on the procedures performed as described in the Auditor's Responsibilities for the Audit of the Financial Statements section

- The amounts and disclosures in the accompanying financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

- The information in the accompanying financial statements related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

Our audits did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter – Supplemental Schedules Required by ERISA

The supplemental schedules of *[identify the title of supplemental schedules and periods covered]* are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information included in the supplemental schedules, other than that agreed to or derived from the certified investment information, has been subjected to auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion:

- The form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

- The information in the supplemental schedules related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

[Signature of the auditor's firm]

[City and state where the auditor's report is issued] [Date of the auditor's report]

ENGAGEMENT ACCEPTANCE

AU-C Section 210, *Terms of Engagement*, requires the auditor to have an agreement with management that management acknowledges and understands its responsibility for the following:

- Maintaining a current plan instrument, including all plan amendments
- Administering the plan in conformity with the plan provisions and determine that:
  - Plan's transactions that are presented and disclosed in the ERISA plan financial statements comply with the plan provisions
  - Sufficient records are maintained in conformity with the plan provisions such that each participant's benefits due or which may become due are correctly determined
- When an election is made by management for an ERISA Section 103(a)(3)(C) audit determining if:
  - An ERISA Section 103(a)(3)(C) audit is permissible under the circumstances
  - The investment information is prepared and certified by a qualified institution as described in 29 CFR 2520.103-8
  - The certification meets the requirements in 29 CFR 2520.103-5
  - The certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework

The auditor should inquire of management or those charged with governance (when electing to have an ERISA Section 103(a)(3)(C) audit) about the following:

- How management determined that the entity preparing and certifying the investment information is a qualified institution
- Prior to the dating of the auditor's report, provide to the auditor a draft of Form 5500 that is substantially complete

AU-C Section 250 *Auditor Responsibilities*

As part of the auditor's responsibilities in accordance with AU-C Section 250 relating to the plan's tax status, the auditor should consider whether management has performed the relevant IRC compliance tests, including:

- Discrimination testing
- Corrected or intends to correct failure

Audit Risk Assessment and Response

AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. The auditor's responsibility to identify and assess the risks of material misstatement includes understanding the entity and its environment, as well as the entity's internal control. To understand the plan and identify and perform audit procedures that are responsive to assessed risks requires an adequate understanding of the plan instrument. In performing the risk assessment procedures, the auditor should perform the following:

- Obtain and read the most current plan instrument, including any amendments, to gain an understanding of the entity
- Consider relevant plan provisions that affect the risk of material misstatement at the relevant assertion level for
  - Classes of transactions,
  - Account balances, and
  - Disclosures.

If the auditor does not consider it necessary to test any relevant plan provisions, the considerations in reaching the conclusion not to test the provisions must be documented in accordance with AU-C Section 230, *Audit Documentation*.

Prohibited Transactions

Should the auditor become aware that the plan has entered into a prohibited transaction with a party in interest, and the prohibited transaction has not been properly reported in the applicable ERISA-required supplemental schedule, the auditor should discuss the matter with management. In the event that management does not revise the ERISA-required schedule, a discussion of the matter with those charged with governance and the following should be considered:

- If the effect of the prohibited transaction is material to the financial statement as a whole, the auditor should modify the auditor's opinion on the ERISA-required supplemental schedule.
- If the effect of the prohibited transaction is not material, the auditor should include additional discussion in the other-matter paragraph in the auditor's report on the ERISA-required supplemental schedules describing the prohibited transaction.
- If the prohibited transaction is considered a related party transaction and not properly disclosed in the notes to the ERISA plan financial statements, the auditor should modify the auditor's opinion on the financial statements in accordance with AU-C Section 705 as a departure from the applicable financial reporting framework.

Reportable Findings

If items are identified that are not in accordance with the criteria specified (for example, not in accordance with the plan instrument), the auditor should evaluate whether the matters are reportable findings.

One or more of the following matters should be considered reportable findings:

- An identified or suspected non-compliance with laws or regulations in accordance with AU-C Section 250
- An audit finding that is significant and relevant regarding the responsibility of those charged with governance to oversee the financial reporting process in accordance with AU-C Section 260
- An indication of deficiencies in internal control that have been identified during the audit but that have not been communicated to management which are of sufficient importance to merit management's attention in accordance with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*

Reportable Findings Should Be Communicated in Writing on a Timely Basis to Those Charged with Governance

The communication should be included with the required communication in accordance with AU-C Sections 250, 260, or 265, either in a separate section or other communications. The written communication should include the following:

- A description of the reportable finding
- Sufficient information to enable those charged with governance and management to understand the context of the communication
- An explanation of the potential effects of the reportable findings on the financial statements or to the plan

NOTE: The auditor should not issue a written communication stating that no reportable findings were identified.

ERISA Section 103(a)(3)(C) Audit Procedures

Management's election to have an ERISA Section 103(a)(3)(C) audit requires the auditor to evaluate management's assessment as to whether the entity issuing the certification is a qualified institution. Management should provide sufficient information that supports their determination that the entity preparing and certifying the investment information is a qualified institution.

The auditor should:

- Identify which investment information is certified
- Perform the following procedures on the certified investment information:
  - Read the certification
  - Compare the certified investment information to:
    - The related information presented
    - The information disclosed in the ERISA plan financial statements
    - The ERISA-required supplemental schedules
- Identify which investment information is not certified
- Perform the following procedures on uncertified investment information:
  - On financial information
  - Disclosures

For all audits of ERISA plan financial statements, including an ERISA Section 103(a)(3)(C) audit, the auditor should perform the procedures necessary to become satisfied that received and disbursed amounts (for example, employer or employee contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions.

Written Representations

The following written representations from management in an audit of ERISA plan financial statements should be requested:

- That management has provided the most current plan instrument, including all plan amendments
- Acknowledgement of its responsibility for administering the plan and determining that the plan's transactions that are presented and disclosed in the ERISA plan financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants to determine the benefits due or which may become due to such participants

- When management elects to have an ERISA Section 103(a)(3)(C) audit, acknowledgement that management's election of the ERISA Section 103(a)(3)(C) audit does not affect its responsibility for the financial statements and for determining whether:
  - An ERISA Section 103(a)(3)(C) audit is permissible under the circumstances,
  - The investment information is prepared and certified by a qualified institution as described in 29 CFR 2520.103-8,
  - The certification meets the requirements in 29 CFR 2520.103-5, and
  - The certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework

Considerations for Form 5500, Annual Return

Prior to dating the auditor's report, the Form 5500 should be obtained and read by the auditor. The auditor should read the draft Form 5500 in order to:

- Identify material inconsistencies with the audited ERISA plan financial statements.
- Communicate with those charged with governance the auditor's responsibility with respect to Form 5500.
- Communicate the procedures performed relating to Form 5500.
- Communicate the results of the procedures performed related to the Form 5500.

TRANSITION—IMPLEMENTATION GUIDANCE FOR ERISA SECTION 103(A)(3)(C) AUDITS

The following illustration contains example reports for when the auditor has adopted this SAS for the first time and is performing an ERISA Section 103(a)(3)(C) audit for the current year and updating their audit from the prior year.

Auditor's Reports on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Elects an ERISA Section 103(a)(3)(C) Audit in the Current Year (2021) and the Auditor Disclaimed an Opinion on the Financial Statements in the Prior Year (2020)

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit for the 2020 plan financial statements, as permitted by Code of Federal Regulations (CFR), Labor, Title 29, Section 2520.103-8, of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.[12]

12 Although not as common, an ERISA Section 103(a)(3)(C) audit may relate to the audit of a 103-12 entity as permitted by 29 CFR 2520.103-12. Accordingly, the wording in this illustrative report may need to be revised to fit the circumstances of the engagement.

- The audit is for a complete set of general-purpose financial statements for a 401(k)-plan subject to ERISA that is presenting comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits.
- The auditor performed an ERISA Section 103(a)(3)(C) audit as of and for the year ended December 31, 2021.
- The auditor disclaimed an opinion on the prior year financial statements (for the year ended December 31, 2020).
- The auditor is issuing two separate reports.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C Section 210, Terms of Engagement.
- There are no limitations on the scope of the audit for the current year, and the auditor has not identified any material misstatements of the ERISA plan financial statements in accordance with AU-C Section 705, Modifications to the Opinion in the Independent Auditor's Report.
- The auditor has concluded that the ERISA Section 103(a)(3)(C) report is appropriate as of and for the year ended December 31, 2021 based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time in accordance with AU-C Section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph for the year ended December 31, 2021.

Independent Auditor's Report

[Appropriate Addressee]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed an audit of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). The financial statements comprise the statement of net assets available for benefits as of December 31, 2021, and the related statement of changes in net assets available for benefits for the year then ended, and the related notes to the financial statements.

Management, having determined it is permissible in the circumstances, has elected to have the audit of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audit need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained a certification from a qualified institution as of and for the year ended December 31, 2021, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.[13]

Opinion

In our opinion, based on our audit and on the procedures performed as described in the Auditor's Responsibilities for the Audit of the Financial Statements section:

- The amounts and disclosures in the financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

13 If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered, then such information may be included in the auditor's report.

The information in the financial statements related to assets held by14 and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement

14 This sentence may need to be modified when the certification is provided by an insurance entity, which provides benefits under the plan or holds plan assets.

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

Our audit did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter – Supplemental Schedules Required by ERISA

The supplemental schedules of [identify the title of supplemental schedules and periods covered] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information included in the supplemental schedules, other than that agreed to or derived from the certified investment information, has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion,

- the form and content of the supplemental schedules, other than the information in the supplemental schedules that is agreed to or derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

- the information in the supplemental schedules related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

[Signature of the auditor's firm]

[City and state where the auditor's report is issued] [Date of the auditor's report]

Independent Auditor's Report

[Appropriate Addressee]

We were engaged to audit the accompanying statement of net assets available for benefits of ABC 401(k) Plan, as of December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 2019 financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statement. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 2019 that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the 2019 financial statement. Accordingly, we do not express an opinion on the 2019 financial statement.

Report on Form and Content in Compliance with DOL Rules and Regulations for 2019 Financial Statement

The form and content of the information included in the 2019 financial statement, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of the auditor's firm]

[City and state where the auditor's report is issued] [Date of the auditor's report]

NOTES

Unit 4

Statement on Auditing Standards 137: *The Auditor's Responsibilities Relating to Other Information included in Annual Reports*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify the changes in the reporting model related to Other information included in the annual report
  - Modifications
  - Replacements
  - Additions to guidance
- ☐ Review examples of auditor's reports
  - Exhibits of format and content of auditor's report
  - Additional procedures

INTRODUCTION

SAS 137 addresses the responsibility of the auditor related to other information included in an annual report. The information could be financial or non-financial information. The standard is expected to reduce diversity in practice and improve transparency related to the auditor's responsibilities for other information and documents that are within the scope of the standard. The standard requires the auditor to read and consider consistency with the financial statements or the knowledge the auditor has obtained in the audit of the financial statements which might indicate a material misstatement of the financial statements or the other information.

NOTE: Form 5500 is not considered an annual report under SAS 137.

EFFECTIVE DATE

The SAS will be effective for audits of financial statements for periods ending on or after December 15, 2021.

CHANGES

Supersedes SAS 118, *Other Information in Documents Containing Audited Financial Statements, as amended AU-C 720.*

Amends:

- SAS 119, *Supplementary Information in Relation to the Financial Statements as a Whole*
- SAS 120, *Required Supplementary Information*
- SAS 122, *Clarification and Recodification*
  - Section 210, *Terms of Engagement*
  - Section 230, *Audit Documentation*
  - Section 260, *The Auditor's Communication with Those Charged with Governance*
  - Section 450, *Evaluation of Misstatements Identified During the Audit*
  - Section 600, *Special Considerations-Audits of Group Financial Statements*
  - Section 810, *Engagements to Report on Summary Financial Statements*
- SAS 133, *Auditor Involvement with Exempt Offering Documents*
- SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
  - Section 700, *Forming an Opinion and Reporting on Financial Statements*
  - Section 705, *Modification to the Opinion in the Independent Auditor's Report*
  - Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

SAS 137 does not:

- Constitute an assurance engagement
- Require the auditor to obtain assurance about the other matter
- Include any obligation by laws or regulations related to other information
- Apply to supplemental information under AU-C Section 725*, Supplementary Information in Relation to the Financial Statements as a Whole*
- Apply to required supplementary information under AU-C Section 730, *Required Supplementary Information*

Examples of amounts and other items that may be included in other information include:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a director's report)
- Chairman's statement
- Corporate governance statement
- Management's internal control and risk assessment reports
- Financial summaries or highlights
- Employment data
- Planned capital expenditures
- Financial ratios
- Names of officers and directors
- Selected quarterly data
- Tables, charts, or graphs containing extracts of the financial statements
- A disclosure providing greater detail about a balance or account shown in the financial statements
- Descriptions of the financial results, such as "Total research and development expense"

Requirements of the auditor:

- Obtaining the other information requires:
  - Determining which documents comprise the annual report
  - Obtaining management's written acknowledgement related to the documents
  - Obtaining entity's manner and timing of the issuances of the documents
  - Making arrangements with management to obtain the final version of the documents in a timely manner, preferably before the date of the auditor's report
  - Requesting management to provide written representation that a final version will be provided if after the date of the auditor's report
- Communication with those charged with governance the following:
  - Auditor's responsibility related to the other information
  - Procedures performed
  - Result of procedures performed

Reading and considering the other information for the following:

- Whether a material inconsistency exits between the financial statements and the other information
- Comparing selected amounts or other items in the other information to the financial statements
- If a material inconsistency exists between the auditor's knowledge and the other information
- Existence of a material misstatement of fact or other information that is misleading

NOTE: Searching for omitted or incomplete information is not required of the auditor.

To respond when the other information appears to be misstated or is materially inconsistent, the auditor should, after discussion with management, perform procedures to determine if:

- The other information contains a material misstatement
- The financial statements contain a material misstatement
- The understanding of the entity and the environment needs to be updated

Reporting

A separate section in the auditor's report titled "Other Information" should include statements of the following:

- Management's responsibility for the other information
- Identification of the other information
- Other information does not include the financial statement and the auditor's report
- Auditor's opinion does not cover or express an opinion or assurance on the other information
- Auditor's responsibility is to read the other information to determine if a material inconsistency exists concerning a material misstatement
- Should the auditor conclude that there exists an uncorrected material misstatement, that fact will be required to be described in the auditor's report

Documentation

Required documentation includes:

- Procedures performed
- Final version of the other information on which the procedures were performed

EXHIBIT—ILLUSTRATIONS OF OTHER INFORMATION SECTIONS TO BE INCLUDED IN AUDITOR'S REPORTS RELATING TO OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Illustration 1: The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information

Other Information [Included in the Annual Report]

Management is responsible for the other information *[included in the annual report]*. The other information comprises the *[information included in the annual report]*1563 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

15 A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Illustration 2: The Auditor Has Concluded That an Uncorrected Material Misstatement of the Other Information Exists

Other Information [Included in the Annual Report]

Management is responsible for the other information *[included in the annual report]*. The other information comprises the *[information included in the annual report]* but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Unit 5

Statement on Auditing Standards 138: *Amendments to the Description of the Concept of Materiality*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify the changes in the definition of materiality
- ☐ Determine the effect on the audit
- ☐ Incorporate the changes on planning of the audit

INTRODUCTION

In December 2019, the ASB of the AICPA issued Statement of Auditing Standard (SAS) 138, *Amendments to the Description of the Concept of Materiality*, that amended various sections of AU-C in an attempt to eliminate inconsistencies between the AICPA professional standards and the description of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. The revised definition is now aligned with the Financial Accounting Standards Board (FASB) and consistent with the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB) as well as the PCAOB and the SEC.

The description has been revised as follows:

> *Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.*

SAS 138 amends:

- SAS 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended
  - Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards* [AICPA, Professional Standards, AU-C Section 200];
  - Section 320, *Materiality in Planning and Performing an Audit* [AICPA, Professional Standards, AU-C Section 320];
  - Section 450, *Evaluation of Misstatements Identified During the Audit* [AICPA, Professional Standards, AU-C Section 450]; and
  - Section 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)* [AICPA, Professional Standards, AU-C Section 600]
- SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as amended*
  - Section 700, *Forming an Opinion and Reporting on Financial Statements* [AICPA, Professional Standards, AU-C Section 700]
- SAS 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* [AICPA, Professional Standards, AU-C Section 703]

NOTE: It is not anticipated to change practice in audit and attest engagements. Effective date for this standard is for periods ending on or after December 15, 2021.

Unit 6

Statement on Auditing Standards 139: *Amendments to AU-C Sections 800, 805, and 810*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- Identify the changes in the reporting model on:
  - Special purpose Frameworks
  - Specific Elements, Accounts or other Items
  - Key Audit Matters

INTRODUCTION

SAS 139 conforms sections to coincide with the codification sections for recently issued standards on auditor reporting and the auditor's responsibility related to other information in annual reports. It will also conform the recently issued concept of materiality. These revised auditor's reports involving special purpose accounting frameworks and other unique reporting scenarios provide additional transparency into the basis for the auditor's report and the responsibilities of both management and the auditors.

Changes from SAS 134 are in the following sections:

- Section 800, *Special Considerations-Special Purpose Frameworks*
- Section 805, *Special Considerations-Specific Elements, Accounts, or Items*

- Section 810, *Summary Financial Statements*
- Reflects guidance in new SASs 136 and 137.

There are three areas of particular concern:

1. Section 800 is amended to require a statement in the audit report when the financial statements are prepared on a regulatory or contractual basis of accounting or any other basis and the use is restricted that alerts the user to the fact the financial statements may not be suitable for another purpose other than the intended purpose. In lieu of the report letter, there should be reference to the note to the financial statements with the required information of the purpose of the financial statements.

2. Section 805 adds factors to consider when reporting on a single financial statement or a specific element of a financial statement.

3. Section 810 includes application paragraphs when the auditor's report includes communication about key audit matters that the auditor is not required to describe the individual key audit matters in the auditor's report on the summary financial statements.

As noted in SAS 139, special purpose financial statements may or may not be prepared in accordance with an applicable financial reporting framework for which the going concern basis of accounting is relevant. The going concern basis of accounting is relevant to a special purpose framework if the special purpose framework requires management, in specified circumstances, to use a basis of accounting other than the going concern basis of accounting.

For example, the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities requires management to assess whether the going concern basis of accounting is appropriate, and if not, to use the liquidation basis of accounting. In contrast, the cash or tax bases of accounting do not specify any alternative basis of accounting to be considered and, thus, do not require management to assess whether the going concern basis of accounting is appropriate. Therefore, the going concern basis of accounting is not relevant to special purpose financial statements prepared using those bases of accounting.

Depending on the applicable financial reporting framework used in the preparation of the special purpose financial statements, the description in the auditor's report of management's responsibilities relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities may also need to be adapted as necessary depending on how Section 570, *Auditor's Responsibilities Regarding the Entity's Ability to Continue as a Going Concern*, applies in the circumstances of the engagement.

In addition, irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements, the requirements of Section 570 apply regarding the auditor's responsibilities to perform the following tasks:

- Based on the audit evidence obtained, conclude whether, in the auditor's judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

- When such substantial doubt exists, evaluate the adequacy of the financial statement disclosures.

- The SAS will be effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation is permitted; however, the ASB expects that SAS 134-140 be implemented at the same time.

NOTES

Unit

7

Statement on Auditing Standards 140: *Amendments to AU-C Section 725, 730, 930, 935, and 940*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify the changes in the reporting model
    - Compliance Audits
    - Required Supplementary Information
    - Interim m Financial Statements
    - Review examples of reports letters

INTRODUCTION

In April 2020, the Auditing Standards Board issued SAS 140 that conforms sections to coincide with the codification sections for recently issued standards on Auditor Reporting and the Auditor's Responsibilities in SAS 134 and related to the Auditor's Responsibilities Relating to Other Information included in Annual Reports SAS 137. Other significant revisions were revisions to AU-C 930, 935, and 940. AU-C Sections 725 and 730 were aligned with SAS 137 on reporting on supplementary information. SAS 140 amends the following:

- SAS 117, AU-C 935, *Compliance Audits*
- SAS 119, AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- SAS 120, AU-C 730, *Required Supplementary Information*

- SAS 122, *Statements on Auditing Standards: Clarification and Recodification*
  - Section 920, *Letters for Underwriters and Certain Other Requesting Parties*
  - Section 930*, Interim Financial Information*
- SAS 124, AU-C 910, *Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country*
- SAS 130, AU-C 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements*
- SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
  - Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- SAS 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

AU-C Section 930 related to reviews of interim financial statements is revised to coincide with the PCAOB's Auditing Standard 4105, *Reviews of Interim Financial Information*. This change puts the auditor's review conclusion at the beginning of the review report on interim statements.

ILLUSTRATION: A REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

Circumstances include the following:

- A review of interim financial information presented as a complete set of financial statements, including disclosures

Independent Auditor's Review Report

[Appropriate Addressee]

Results of Review of Interim Financial Information

We have reviewed the accompanying [describe the interim financial information or statements reviewed] of ABC Company and its subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended, and the related notes (collectively referred to as the interim financial information).

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America].

Basis for Review Results

We conducted our review in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of ABC Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

AU-C Section 935 is revised to be consistent with the Uniform Guidance, changes in the OMB Compliance Supplement, and the Yellow Book. The more significant changes include:

- Presenting requirements for a combined report on compliance and internal control as the default form of the report, followed by requirements addressing when the auditor chooses to issue separate reports on compliance and on internal control over compliance. This is in reverse to what is presented in extant AU-C Section 935 because in practice combined reports are more common.

- Amends the definition of material noncompliance to align with the SAS 138, Amendments to the Description of the Concept of Materiality, description of materiality.

ILLUSTRATION: COMBINED REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS AND INTERNAL CONTROL OVER COMPLIANCE (UNMODIFIED OPINION ON COMPLIANCE, NO MATERIAL WEAKNESSES, OR SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL OVER COMPLIANCE IDENTIFIED)

The AICPA Audit Guide Government Auditing Standards and Single Audits contains illustrative language for other types of reports, including reports containing qualified or adverse opinions on compliance with either material weaknesses in internal control over compliance, significant deficiencies in internal control over compliance, or both identified.

Independent Auditor's Report

[Addressee]

Report on Compliance

Opinion on *[indicate the reporting level pursuant to governmental audit requirement]*

We have audited Example Entity's compliance with the [identify the applicable compliance requirements or refer to the document that describes the applicable compliance requirements applicable to Example Entity's *[identify the government program(s) audited or refer to a separate schedule that identifies the program(s)]* for the year ended June 30, 20X1.

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that are applicable to [indicate the reporting level pursuant to governmental audit requirement] for the year ended June 30, 20X1.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards (GAS) issued by the Comptroller General of the United States; and *[insert the name of the governmental audit requirement or program-specific audit guide]*. Our responsibilities under those standards and [insert the name of the governmental audit requirement or program-specific audit guide] are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Example Entity and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Example Entity's government programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to occurred, whether due to fraud or error, and express an opinion on Example Entity's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and *[insert the name of the governmental audit requirement or program-specific audit guide]* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Example Entity's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and *[insert the name of the governmental audit requirement or program-specific audit guide]*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Example Entity's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Example Entity's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with *[insert the name of the governmental audit requirement or program-specific audit guide]*, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *[insert the name of the governmental audit requirement or program-specific audit guide]*. Accordingly, this report is not suitable for any other purpose.

[Signature of the auditor's firm]

[City and state where the auditor's report is issued] [Date of the auditor's report]

AU-C Section 940 revisions include changes to the reporting requirement related to audits of internal control over financial reporting that is integrated with an audit of financial statements as follows:

- Should a separate report on internal control over financial report be issued, there will be a required paragraph to be placed within:

    a. The Opinion section following the opinion paragraph that references to the report on internal control over financial reporting, and

    b. The Opinion on Internal Control over Financial Reporting section following the opinion paragraph in the ICFR report that references the report on the financial statements.

Changes the requirements on how to report when issuing an adverse opinion or disclaiming an opinion when there is a scope limitation.

- When management includes additional information in management's report or a document containing management's report and the related auditor's report.

In circumstances where the auditor is required to report on supplementary information or required supplementary information, AU-C Sections 725 and 730 have been amended to require reporting in a separate section of the auditor's report as opposed to in an other-matter paragraph.

EFFECTIVE DATE

The effective date is for periods ending on or after December 15, 2021. Reviews of interim financial information is effective for interim periods of fiscal years beginning on or after December 15, 2021. Early implementation is permitted; however, the ASB expects that SAS 134-140 be implemented at the same time.

NOTES

Unit

8

Statement on Auditing Standards 141: *Amendment to the Effective Dates of SASs 134-140*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify the changes in the effective dates of the Suite of Standards:
    - SAS 134
    - SAS 135
    - SAS 136
    - SAS 137
    - SAS 138
    - SAS 139
    - SAS 140

A one-year delay was issued for the statement on standards for the above standards. The new effective date was extended to December 15, 2021. It was felt that more time was needed to implement this suite of standards due to the COVID-19 pandemic that continues to have a significant impact on businesses and their CPA firms.

NOTES

Unit 9

Statement on Auditing Standards 142: *Audit Evidence*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify the changes related to audit evidence.
- ☐ Identify attributes to be considered in information.
- ☐ Consider the relevance and reliability of evidence.
- ☐ Recognize that there will be examples of new concept of evidence.

OBJECTIVE

SAS 142 addresses the evolving nature of business and audit services and issues that have arisen since AU-C Section 500, *Audit Evidence,* was originally issued. The issues arising include the use of emerging technologies by both preparers and auditors, the application of professional skepticism, the expanding sources of information to be used as audit evidence, and more broadly, the accuracy, completeness, relevance, and reliability of audit evidence. SAS 142 brings audit evidence into a more current perspective, modernizing the guidance for today's and tomorrow's audits.

Prior audit evidence guidance was very focused on paper-based documents and audit evidence that auditors would obtain directly from their clients. Today, there are many different forms of evidence that are available, including third-party sources and other external information sources.

The objective of the auditor is to evaluate information to be used as audit evidence, including the results of audit procedures to inform the auditor's overall conclusion about whether sufficient appropriate audit evidence was obtained.

PROVISIONS

Audit evidence is information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. It is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements. Audit evidence is the result of performing audit procedures as follows:

- Tests of controls
- Risk assessment procedures
- Substantive audit procedures

Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of audit evidence necessary is affected by the auditor's assessment of the risks of material misstatement and the quality of audit evidence obtained.

Appropriateness of audit evidence is the measure of the quality of audit evidence, that is, its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

SAS 142 is a documentation standard rather than a performance standard. For example, SAS 142 expands the objective of prior guidance to be more broadly focused on considering the attributes of information to be used as audit evidence in assessing whether sufficient appropriate audit evidence has been obtained. Prior audit evidence guidance focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence rather than evaluating the sufficiency and appropriateness of the audit evidence obtained.

This change is accomplished by establishing attributes of information to be used as audit evidence when evaluating whether sufficient and appropriate audit evidence has been obtained by the auditor. The reliability of information to be used as audit evidence is affected to varying degrees by the following attributes, individually or in combination:

- Accuracy
- Completeness
- Authenticity
- Susceptibility to bias

When evaluating information to be used as audit evidence:

1. The auditor should evaluate information to be used as audit evidence by taking into account
   - The relevance and reliability of the information, including its source; and
   - Whether such information corroborates or contradicts assertions in the financial statements.
2. The auditor's evaluation of the information to be used as audit evidence in accordance with the earlier information should include
   - Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes; and
   - Obtaining audit evidence about the accuracy and completeness of the information, as necessary.

Examples are included to illustrate automated tools and techniques such as drones and data analytics. Similar automated tools and techniques could be used in the risk assessment and substantive procedures assuming the objects of both procedures are accomplished.

EFFECTIVE DATE

The standard is effective for periods ending on or after December 15, 2022.

NOTES

Unit 10

Statement on Auditing Standards 143: *Auditing Accounting Estimates and Related Disclosures* and Beyond

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Identify the changes in auditing estimates
- ☐ Understand there will be related disclosures
- ☐ Discuss professional skepticism

INTRODUCTION

The responsibilities of the auditor related to the use of accounting estimates is addressed in this standard, including estimates used in fair value. With the changing environment created by the new accounting standards, more complex issues have been presented that previously were not present. Guidance is provided for the related disclosure of the use of estimates in financial reporting and focuses on the uncertainty using estimates and management's bias.

SAS 143 supersedes *SAS 122 Statements on Auditing Standards: Clarification and Recodification, AU-C section 540, Auditing Estimates and Related Disclosures.*

WHAT IS CHANGING?

The SAS addresses:

- The nature of estimates and the concept of uncertainty in their use.
- The requirement for an assessment of inherent risk separate from the assessment of control risk at the assertion level.
- Risk assessment requirements that are more specific to estimates.
- Additional audit procedures that respond to the reasons for the assessed risk of material misstatements at the assertion level.
- Professional skepticism related to use of estimates.
- The requirement to evaluate estimates used in relationship to the applicable financial reporting framework.
- Provides information to be used for all types of accounting estimates:
  - Complex
  - Relatively simple

EFFECTIVE DATE

The standard is effective for audits for periods ending on or after December 15, 2023.

Unit 11

Statement on Auditing Standards 144: *Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained from External Information Sources*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Describe the amendments to audit standards based on the issuance of SAS 144

INTRODUCTION

SAS 144 makes changes to three existing audit standards:

- AU-C 501, *Audit Evidence-Specific Considerations for Selected Items*
- AU-C 540, *Auditing Accounting Estimates and Related Disclosures*
- AU-C 620, *Using the Work of an Auditor's Specialist*

SAS 144 is effective for audits of financial statements for periods ending on or after December 15, 2023.

PROVISIONS

AU-C 501, *Audit Evidence-Specific Considerations for Selected Items*

The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:

- Valuation of investments in securities and derivative instruments
- Existence and condition of inventory
- Completeness of litigation, claims, and assessments involving the entity
- Presentation and disclosure of segment information, in accordance with the applicable financial reporting framework
- Use work of management's specialists

This section of AU-C 501 addresses specific consideration by the auditor in obtaining sufficient appropriate audit evidence regarding aspects of selected items, including use of management's specialist. The primary change in SAS 144 is information related to the use of a management's specialist.

Management specialist is defined as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the reporting entity to assist the entity in preparing financial statements.

If information to be used as audit evidence has been prepared using the work of a management's specialist, the auditor should, to the extent necessary, considering the significance of the specialist's work for the auditor's purposes, perform the following:

- Evaluate the competence, capabilities, and objectivity of that specialist
- Obtain an understanding of the work performed by that specialist
- Evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion
  - AU-C 540, *Auditing Accounting Estimates and Related Disclosures*
  - SAS 144 adds a new appendix—*Use of Pricing Information from Third Parties as Audit Evidence.* This appendix provides guidance on using pricing information as audit evidence for estimates related to fair value of financial instruments obtained from external information sources

AU-C 620, *Using the Work of an Auditor's Specialist*

SAS 144 makes minor changes to AU-C 620 to enhance the guidance related to using work of an auditor's specialist. Two specific additions are as follows:

1. Agreement on the respective roles and responsibilities of the auditor and the auditor's specialist may include the degree of responsibility of the auditor's specialist for the following:

   – Testing of source data, for example, testing data produced by the reporting entity, or evaluating the relevance and reliability of data from sources external to the entity

   – Evaluating the significant assumptions used by the reporting entity or management's specialist, or developing the auditor's specialist's own assumptions

   – Evaluating the methods used by the reporting entity or management's specialist, or using the auditor's specialist's own methods

2. Examples of situations in which the auditor may conclude that the work of the auditor's specialist is not adequate for the auditor's purposes include the following:

   – The specialist's use of data or significant assumptions was not based on consideration of relevant information available to the specialist.

   – The methods used by the specialist were not appropriate.

   – The specialist's work was not performed in accordance with the auditor's instructions.

   – The specialist's findings and conclusions are inconsistent with other information available to the auditor

   – The specialist's report, or equivalent documentation, contains restrictions, disclaimers, or limitations that affect the auditor's use of the report or work.

NOTES

Unit 12

Statement on Auditing Standards 145: *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

LEARNING OBJECTIVES

After completing this unit, participants will be able to:

- ☐ Describe the amendments to audit standards based on the issuance of SAS 145

INTRODUCTION

SAS 145 was issued in response to peer-review deficiencies identified in the risk assessment process performed by auditors. SAS 145 is designed to enhance the requirements and guidance for identifying and assessing the risks of material misstatement, particularly in the areas of understanding the reporting entity's system of internal controls and assessing control risk.

Supersedes SAS 122, *Statements on Auditing Standards: Clarification and Recodification.*

SAS 145 is effective for audits of financial statements for periods ending on or after December 15, 2023; early implementation is permitted.

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

PROVISIONS

SAS 145 includes revised requirements to evaluate the design of certain controls within the control activities component, including general IT controls, and to determine whether such controls have been implemented. SAS 145 also includes a new requirement to separately assess inherent risk and control risk.

SAS 145 includes another new requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk.

SAS 145 also includes:

- A revised definition of significant risk
- New guidance on scalability
- New guidance on maintaining professional skepticism
- A new "stand-back" requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures
- Revised requirements relating to audit documentation include:
- Documentation of the evaluation of the design of identified controls and determination of whether such controls have been implemented
- The rationale for significant judgments made regarding the identified and assessed risks of material misstatement

Finally, SAS 145 adds conforming amendment to perform substantive procedures for each relevant assertion of each significant class of transactions, account balance, and disclosure, regardless of the assessed level of control risk (rather than for all relevant assertions related to each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement, as previously required).

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