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## Statement on Auditing Standards (SAS) Update

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# MDCPA.CNF.IO

- ▶ Navigate to <https://mdcpa.cnf.io> and tap the session titled "SAS Update"
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# Agenda

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- ❑ A little background
- ❑ Overview of the new SASs
- ❑ How will the new SASs impact my 2021/2022 audit?
- ❑ What else is on the horizon?

# A Little Background...

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- AICPA Auditing Standards Board (ASB) issues:
  - Statements on Auditing Standards (SAS)
  - Statements on Standards for Attestation Engagements (SSAE)
  - Statements on Quality Control Standards (SQCS)
  - Interpretive and other publications to assist in understanding and applying the standards

# A Little Background...

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The first SAS was issued in

**November 1972**

# A Little Background...

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The SASs are our rulebook

Changes may impact how your  
audit is conducted

# A Little Background...

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The AICPA and its predecessors have a history dating back to

1887

# A Little Background...

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- ❑ American Association of Public Accountants (AAPA) was formed in 1887
- ❑ AAPA was succeeded by the Institute of Public Accountants in 1916, (a membership of 1,150)
- ❑ Name was changed to the American Institute of Accountants in 1917
- ❑ Changed to its current name of the American Institute of Certified Public Accountants in 1957



# A Little Background...

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Current membership of the AICPA is

431,000+

# A Little Background...

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- ❑ Convergence of SASs with the International Auditing and Assurance Standards Board (IAASB) promulgated International Standards on Auditing (ISA)
- ❑ SASs modify or create new sections in the Clarified Statements on Auditing Standards
  - Identified as AU-C sections in the AICPA Professional Standards

# Overview of New SASs (134 – 141)

Standard	Description	Effective date
<b>SASs</b>		<b>Audits of financial statements for:</b>
134	Auditor reporting and amendments	Periods ending on or after December 15, 2021
135	Omnibus – certain changes to conform to PCAOB standards	Periods ending on or after December 15, 2021 (Except amendments to AU-C 930 – effective for interim periods of fiscal years ending on or after December 15, 2021)
136	Auditor reporting on employee benefit plans	Periods ending on or after December 15, 2021
137	Other Information included in annual reports	
138	Amendments to the description of materiality	
139	Amendments to AU-C 800, 805, 810 for auditor reporting changes	
140	Amendments to AU-C 725, 730, 935, and 940 for auditor reporting changes Amendments to AU-C 930	Periods ending on or after December 15, 2021 (Except amendments to AU-C 930 – effective for interim periods of FYs beginning on or after December 15, 2021)
141	Deferral of effective dates for SAS 134-140	Effective upon issuance
<i>Early implementation permitted.</i>		

# SAS No. 134

## *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*

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- ❑ Opinion
  - Required to be presented first
- ❑ Basis for Opinion
  - Includes a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit
- ❑ Substantial Doubt About the Entity's Ability to Continue as a Going Concern (if applicable)
- ❑ Key Audit Matters (KAMs)
  - NOT required; only reported if engaged to include

# SAS No. 134

## *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*

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### □ Responsibilities of Management

- Expanded description related to:
  - Going concern evaluation (when required by the applicable financial reporting framework)

### □ Auditor's Responsibilities

- Expanded description related to:
  - Professional judgment and professional skepticism
  - Going concern
  - Auditor's communications with those charged with governance

# SAS No. 135

## *Omnibus Statement on Auditing Standards—2019*

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- ❑ Amends various AU-C sections (260, 550, 240, others)
- ❑ Communication With TCWG (260), Consideration of Fraud (240), Related Parties (550), Terms of Engagement (210)
- ❑ Inquiry of the predecessor auditor regarding their understanding of related party (RP) relationships and transactions and significant unusual transactions

# SAS No. 135

## *Omnibus Statement on Auditing Standards—2019*

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- ❑ **Significant unusual transactions**
  - Outside the normal course of business for the entity or that otherwise appear to be unusual due to timing, size, or nature
- ❑ Inquiries of management and TCWG
- ❑ Procedures required to evaluate the purpose of significant unusual transactions

# SAS No. 135

## *Omnibus Statement on Auditing Standards—2019*

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- ❑ Enhanced requirements to identify previously unidentified or undisclosed RPs or significant RP transactions
- ❑ Procedures to test accuracy and completeness
- ❑ Inquiries of TCWG, management, others within the entity:
  - Existence and business purpose of RP transactions
  - Entity's established policies or procedures regarding RP transactions
  - Concerns surrounding RP transactions



# SAS No. 136

## *Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

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- ❑ Applies only to the audit of financial statements of employee benefit plans (EBP) subject to the Employee Retirement Income Security Act of 1974 (ERISA)
- ❑ New AU-C section 703 (applies in place of AU-C section 700 - only for ERISA EBP audits)
- ❑ Changes to the form and content of the auditor's report and new performance requirements

# SAS No. 136

## *Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

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- “Limited-Scope Audits” now referred to as ERISA section 103(a)(3)(C) audits
  - Terminology change only; still same in substance
  
- New requirements related to:
  - Engagement acceptance
  - Audit risk assessment and response
    - Consideration of relevant plan provisions
  - Communications with TCWG
    - Reportable findings
  - Procedures for an ERISA section 103(a)(3)(C) audit
  - Considerations relating to the Form 5500

# SAS No. 136

## *Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

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- ❑ Significant changes to the form and content of the auditor's report
  - Incorporates SAS 134
- ❑ Changes under other SASs apply
- ❑ Expanded description of management's responsibilities
  - Maintaining a current plan instrument (including all amendments)
  - Administering the plan
  - Determining that the plan's transactions are presented and disclosed in the financial statements in conformity with the plan's provisions
  - Maintaining sufficient records with respect to each of the participants

# SAS No. 136

## *Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

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- ❑ ERISA ERISA section 103(a)(3)(C) audit
  - SAS 136 clarifies what is expected of the auditor, including specific procedures
  - Expanded description of management's responsibilities for the related certification
  - Auditor's report explains that the ERISA section 103(a)(3)(C) audit did not extend to the certified investment information except for certain procedures that are outlined

# SAS No. 137

## *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*

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- ❑ AU-C Section 720 (Supersedes SAS No. 118, *Other Information In Documents Containing Audited Financial Statements*)
- ❑ Clarifies documents that are within the scope of the Standard
- ❑ Other information (OI)
  - Financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in an entity's annual report
- ❑ Remain alert for indications that a material:
  - Inconsistency exists between the OI and the auditor's knowledge obtained in the audit
  - Misstatement of fact exists, or the OI is otherwise misleading

# SAS No. 137

## *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*

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- A separate section in the auditor's report addressing OI:
  - Management is responsible for the OI
  - Identify the OI and that it does not include the financial statements and the auditor's report
  - A statement that the auditor's opinion on the financial statements does not cover the OI and the auditor does not express an opinion or any form of assurance
  - Auditor's responsibility to read the OI and consider whether a material inconsistency exists or appears to be materially misstated

# SAS No. 138

## *Amendments to the Description of the Concept of Materiality*

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- ❑ Also applies to SSAE No. 20 of the same title
- ❑ Changes the description of the concept of materiality
- ❑ Aligns the materiality concepts with the description used by the U.S. judicial system and other U.S. standard setters and regulators
- ❑ Amendments are neither expected nor intended to change U.S. firm practice

# SAS No. 138

## *Amendments to the Description of the Concept of Materiality*

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- ❑ New description of materiality:
  - Misstatements, including omissions, are considered to be material **if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements**
  
- ❑ Old description of materiality:
  - Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements



# SAS No. 139

## *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*

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- ❑ Aligns certain AU-C sections with the reporting provisions of SAS No. 134 and other recently issued SASs
- ❑ AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
- ❑ AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*
- ❑ AU-C section 810, *Engagements to Report on Summary Financial Statements*
- ❑ Involves special purpose accounting frameworks and other unique reporting scenarios

# SAS No. 140

*Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137 was issued*

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- ❑ Conformity with SAS 134 and 137
- ❑ Supplementary information
  - Requires reporting in a separate section of the auditor's report as opposed to in an other-matter paragraph
- ❑ AU-C section 930, *Interim Financial Information*
- ❑ AU-C section 935, *Compliance Audits*
- ❑ AU-C section 940, *An Audit of Internal Control over Financial Reporting That Is Integrated With an Audit of Financial Statements*

# Communication With Those Charged With Governance

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- ❑ AU-C section 260
- ❑ Requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor
- ❑ Amended by SAS Nos. 134, 135, and 137
  - Periods ending on or after December 15, 2021
- ❑ Amended by SAS No. 143
  - Periods ending on or after December 15, 2023

# Communication With Those Charged With Governance

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- ❑ Required to communicate about the significant risks identified by the auditor (planned scope and timing)
  - Helps TCWG understand those matters and why they require special audit consideration
  - May assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process
- ❑ Required to communicate KAMs (if applicable)

# Communication With Those Charged With Governance

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- ❑ Required to communicate about:
  - Significant unusual transactions (if any)
  - Certain matters for which the auditor consulted outside the engagement team
  - Potential effects of uncorrected misstatements on future-period financial statements

# How will the SASs impact my audit?

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- ❑ Calendar year 2021; Fiscal year 2022
- ❑ Engagement letters
- ❑ Communication to TCWG
- ❑ Related parties and unusual transactions
  - Additional inquiries and information requests
  - Policies and procedures
- ❑ Auditor's Reports
- ❑ Management representation letters

# Overview of New SASs (142 – 144)

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Standard	Description	Effective date
<b>SASs</b>		<b>Audits of financial statements for:</b>
142	Audit evidence	Periods ending on or after December 15, 2022
143	Auditing accounting estimates and related disclosures	Periods ending on or after December 15, 2023
144	Use of specialists and use of pricing information	
<i>Early implementation permitted.</i>		

# SAS No. 142

## *Audit Evidence*

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- ❑ Effective for audits of financial statements for periods ending on or after December 15, 2022 (CY 2022; FY 2023)
- ❑ **Audit Evidence** - Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements.
- ❑ What constitutes audit evidence; attributes of information that are taken into account by the auditor when evaluating information to be used as audit evidence



# SAS No. 142

## *Audit Evidence*

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- ❑ Old objective: To design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion
- ❑ **New objective:** 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 has been obtained

# SAS No. 142

## *Audit Evidence*

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- ❑ More broadly focused on considering the attributes of information to be used as audit evidence
- ❑ Automated tools and techniques to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence
- ❑ Incorporates the concepts surrounding professional skepticism throughout the standard

# SAS No. 142

## *Audit Evidence*

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- ❑ Attributes of reliable information include:
  - Accuracy, completeness, authenticity, and susceptibility to bias
- ❑ Information to be used as audit evidence may be obtained directly or derived individually or in combination from different sources
  - Management
  - External information sources and other external parties
  - Auditor
- ❑ The higher the risk of material misstatement, the more persuasive audit evidence should be

# SAS No. 143

## *Auditing Accounting Estimates and Related Disclosures*

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- ❑ Effective for audits of financial statements for periods ending on or after Dec. 15, 2023 (CY23; FY24)
- ❑ Addresses the auditor's responsibilities relating to accounting estimates and related disclosures
- ❑ Enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates

# SAS No. 143

## *Auditing Accounting Estimates and Related Disclosures*

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- ❑ Explains the nature of accounting estimates and the concept of estimation uncertainty
- ❑ Provides information about scalability of the SAS for all types of accounting estimates, from those that are relatively simple to those that are complex
- ❑ Requires a **separate assessment of inherent risk and control risk**
- ❑ Provides risk assessment requirements that are more specific to estimates and addresses the increasingly complex business environment and complexity in financial reporting frameworks

# SAS No. 143

## *Auditing Accounting Estimates and Related Disclosures*

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- ❑ Emphasizes that the auditor's further audit procedures need to be more responsive to the reasons for the assessed risks of material misstatement at the relevant assertion level
- ❑ Refers to relevant requirements in other AU-C sections and provides related guidance to emphasize the importance of the auditor's decisions about controls relating to accounting estimates

# SAS No. 143

## *Auditing Accounting Estimates and Related Disclosures*

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- ❑ Addresses the exercise of professional skepticism when auditing accounting estimates
- ❑ Requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in context of the applicable financial reporting framework

# SAS No. 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*

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- ❑ Effective for audits of financial statements for periods ending on or after December 15, 2023 (CY23; FY24)
- ❑ Provides additional guidance on the use of specialists, both management's and auditor's
- ❑ Appendices that provide guidance on using pricing information as audit evidence for estimates related to the fair value of financial instruments

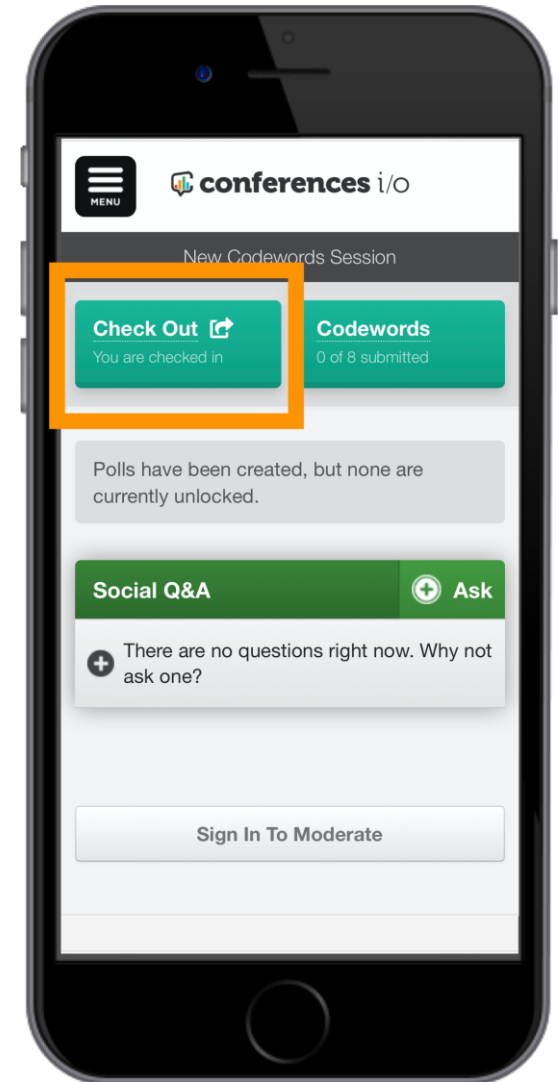


# Resources

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- ❑ <https://us.aicpa.org/research/standards/auditattest>
- ❑ <https://us.aicpa.org/interestareas/frc/auditattest/standards/tracker-auditandattest.html>
- ❑ AICPA “At a Glance” series
- ❑ AICPA 2021 Governmental and Not-for-Profit Training Program

Don't Forget To  
Check-Out Before  
You Leave!





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