

North Carolina, Office of the State Controller



Auditing Standards Update

Weirdest Audit Year(s) Ever!

Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE

May 19, 2022



CONVERSATION WITH TAZ

🇺🇸 Rhett/ aka Taz:

🇺🇸 I made a new friend at school today.

🇺🇸 Really that's great. What's his name? Billy.

🇺🇸 Yeah, I met him in "Time Out"



CONVERSATION WITH ZIGGY

🌟 **Waverly/ aka Ziggy:**

🌟 **Poppie – I don't believe that, you think I'm Dumb.**

🌟 **Waverly - Maybe a little!**



CONVERSATION WITH ZIGGY

- 🌟 Waverly/ aka Ziggy:
- 🌟 Mimi, Gatlin, you are so cute.
- 🌟 Waverly – “Matt” is very cute.
- 🌟 Poppie – Surely, he is not as cute as Poppie.
- 🌟 Waverly - You’re cute too, but not as cute as Max (i.e. speaking of Max her dog!)



Weirdest Audit Year(s) Ever

Auditing (from the Home Office)

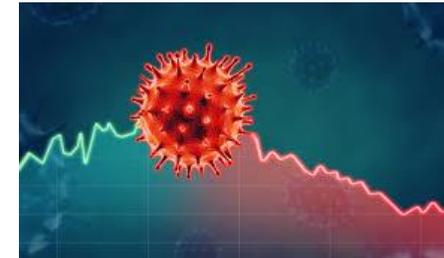
Jerry E. Durham, CPA, CGFM, CFE

Gerry Boaz, CPA, CGFM, CGMA

Practical Audit Implications

Covid Timeline

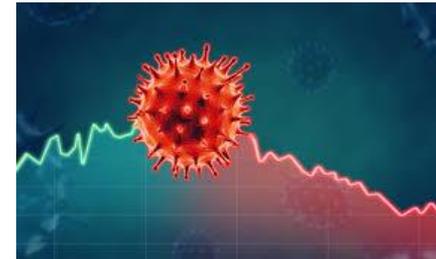
- March 13 – President Trump Declares COVID-19 a **National** Emergency
- March 17 – Administration Asks Congress to Send Americans Direct Financial Relief
- March 18 – AICPA issues a special report – Financial Reporting Considerations
- March 26 – Senate Passes **CARES Act**
- March 27 – President Trump Signs CARES Act Into Law
- April 3 – AICPA Issues an FAQ related to Covid Audit Issues
- April 13 – GASB Issues an Emergency Toolkit



Practical Audit Implications

Covid Timeline

- April 22 – Treasury issues first Frequently Asked Questions
- May – GASB Issues Statement 95
- May – AICPA Auditing Standards Board Issues SAS 141
- May 21 – United States and AstraZeneca Form Vaccine Deal
- **June 30** – Fauci Warns New COVID-19 Cases Could Hit 100,000 a Day
- July 2 – GASB issues Accounting and Financial Reporting Guidance for CARES Act and Coronavirus Diseases
- **June 30**, And as the rest of the U.S. and the World was concerned about social distancing, wearing masks, and businesses were just trying to survive, the **accounting/auditing profession had to deal with a myriad of critical issues related to accounting and auditing.**



April 3, 2020

Subject: Letter of Access for Essential Personnel

To whom it may concern:

This Letter of Access indicates that, as an employee of the State of Tennessee, Comptroller of the Treasury, **Jerry E. Durham, Assistant Director, Division of Local Government Audit**, is considered essential personnel during the ongoing COVID-19 outbreak and declared State of Emergency in Tennessee. Employees who are classified as essential personnel are providing vital services to State of Tennessee citizens as defined by Gov. Bill Lee's Executive Orders 22 and 23 and may be granted access to perform the essential functions of their position. As an authorized employee of the State of Tennessee, Comptroller of the Treasury, the individual will be able to produce an identification badge with the name and image of the employee.

This letter is valid from April 3, 2020 until Gov. Lee revokes or terminates the Declared State of Emergency in response to the outbreak of COVID-19.

Thank you for your cooperation. For validation purposes, please contact Lela Shadrick, Comptroller of the Treasury Human Resources Manager, at 615.401.7927 or 615.210.2454.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

GASB Technical Bulletin 2020-1

- **Audit Issues:**

- Revenue Recognition
- Subsequent Events
- Operating or Nonoperating
- Loan Forgiveness
- Extraordinary or Special Item



AICPA – Covid Audit Issues FAQs

- **Audit Issues:**

- Inventory Observations
- Fraud Interviews
- Access to Records
- Confirmations
- Representation Letters



Covid-19: GAO/GAGAS Audit Alert

- **Audit Issues:**

- Audit Risk
- Risk of Fraud
- Internal Control
- Evidence
- Quality Control



Treasury FAQs

- **Grant Issues Examples:**
 - *...payroll expenses for public safety, public health, health care, human services, and similar employees whose services are **substantially dedicated** to mitigating or responding to the COVID-19 public health emergency...*



Tennessee Local Governments

- **Audit Issues – Our Experience:**

- **Working at Home**
- **Revenue Recognition**
- **Duplication of Expenses**
- **Too much Revenue**
 - **Additional State Revenue**
- **Documentation Issues**
- **Access to Records**



THE AUDIT MUST GO ON!!

by Jim Arnette, Past AGA National President and
Director of the Division of Local Government Audit

- 🌐 Article in the Winter Edition of the Journal of Government Financial Management
- 🌐 *The Audits Must Go On!*
- 🌐 *A Story of Perseverance, Preparedness, Change and Success During the Pandemic (page 56)*



And the weird gets weirder!

The New and Improved Yellow Book??

August, 9, 2021

Jerry E. Durham, CPA, CGFM, CFE
Gerry Boaz, CPA, CGFM, CGMA

April 14, 2021 Technical Update

- ▶ 2021 Technical Updates to the 2018 Revision of Government Auditing Standards
- ▶ The following technical updates have been made to the 2018 revision of Government Auditing Standards (known as the Yellow Book). These technical updates to the 2018 revision of Government Auditing Standards are effective upon issuance.

April 14, 2021 Technical Update

2018 Revision of *Government Auditing Standards*

1.02 The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, and ethically within the context of the statutory boundaries of the specific government program.

2021 Technical Updates

1.02 The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, and ethically, and equitably within the context of the statutory boundaries of the specific government program.

April 14, 2021 Technical Update

3.83 Auditors who previously provided nonaudit services for an entity that is a prospective subject of an engagement should evaluate the effect of those nonaudit services on independence before agreeing to conduct a GAGAS engagement. If auditors provided a nonaudit service in the period to be covered by the engagement, they should (1) determine if GAGAS expressly prohibits the nonaudit service; (2) if audited entity management requested the nonaudit service, determine whether the skills, knowledge, and experience of the individual responsible for overseeing the nonaudit service were sufficient; and (3) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.

3.83 Auditors who previously provided nonaudit services for an entity that is a prospective subject of an engagement should evaluate the effect of those nonaudit services on independence before agreeing to conduct a GAGAS engagement. If auditors provided a nonaudit service in the period to be covered by the engagement, they should (1) determine if GAGAS expressly prohibits the nonaudit service; (2) if audited entity management requested the nonaudit service, determine whether the skill, knowledge, or experience of the individual responsible for overseeing the nonaudit service was sufficient; and (3) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.

April 14, 2021 Technical Update

8.42 If internal control is significant to the audit objectives, ~~auditors determine which of the five components of internal control and underlying principles~~ are significant to the audit objectives, ~~as all components of~~ internal control are generally relevant, but not all components may be significant to the audit objectives. This determination can also identify whether specific controls are significant to the audit objectives. Determining which internal control components and principles and/or specific controls are significant to the audit objectives is a matter of professional judgment.

8.49 If internal control is determined to be significant to the audit objectives, auditors should assess and document their assessment of the design, implementation, and/or operating effectiveness of such internal control to the extent necessary to address the audit objectives.

8.42 If internal control is significant to the audit objectives, auditors determine which of the five components of internal control are significant to the audit objectives, as all components of internal control are generally relevant, but not all components may be significant to the audit objectives. This determination can also identify the underlying principles, control objectives, or specific controls that are significant to the audit objectives. Determining which internal control components, principles, control objectives, and/or specific controls are significant to the audit objectives is a matter of professional judgment.

8.49 If internal control is determined to be significant to the audit objectives, auditors should plan and perform audit procedures to assess internal control to the extent necessary to address the audit objectives.

April 14, 2021 Technical Update

9.30 If some but not all internal control components are significant to the audit objectives, the auditors should identify as part of the scope those internal control components and underlying principles that are significant to the audit objectives.

9.30 When reporting on the scope of their work on internal control, auditors should identify the scope of internal control assessed to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations in the audit report.

9.32 Control components and underlying principles that are not considered significant to the audit objectives may be identified in the scope if, in the auditors' professional judgment, doing so is necessary to preclude a misunderstanding of the breadth of the conclusions of the audit report and to clarify that control effectiveness has not been evaluated as a whole. Auditors may also identify and describe the five components of internal control so that report users understand the scope of the work within the context of the entity's internal control system.

9.32 Auditors may identify the control components, underlying principles, control objectives, or specific controls assessed in describing the scope of their work on internal control. Auditors may also identify the level of internal control assessment performed, as discussed in paragraph 8.50. Control components and underlying principles that are not considered significant to the audit objectives may be identified in the scope if, in the auditors' professional judgment, doing so is necessary to preclude a misunderstanding of the breadth of the conclusions of the audit report and to clarify that control effectiveness has not been evaluated as a whole. Auditors may also identify and describe the five components of internal control so that report users understand the scope of the work within the context of the entity's internal control system.



2022 ASB Update

February 16, 2022

Jerry E. Durham, CPA, CGFM, CFE
Gerry Boaz, CPA, CGFM, CGMA

Auditing Standards

■ Standards Setters:

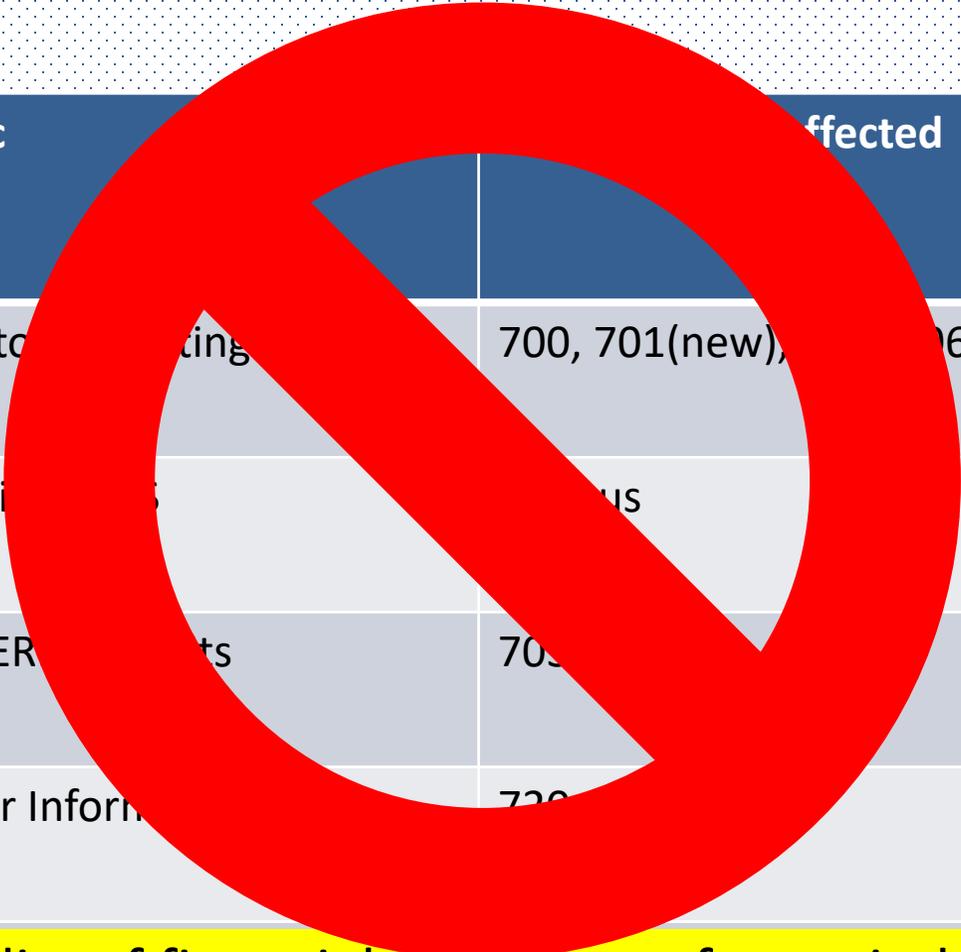
- **AICPA/ASB = Generally Accepted Auditing Standards = GAAS**
- **GAO = Government Auditing Standards = Yellow Book = GAGAS**
- **OMB = Single Audit Guidance = Uniform Guidance**

Auditing Standards

■ Standards Setters (cont'd):

- **IAASB (International Auditing and Assurance Standards Board) = International Audit Standards = ISAs**
- **PCAOB/SEC = Standards for Publicly Traded Companies = AS**
- **States may prescribe additional standards.**

Recently Issued Auditing Standards



SAS No.	Topic	Effective	Issued
134	Auditor Reporting	700, 701(new), 706	May 2019
135	Omni	705	May 2019
136	EBP ER	705	July 2019
137	Other Inform	720	July 2019

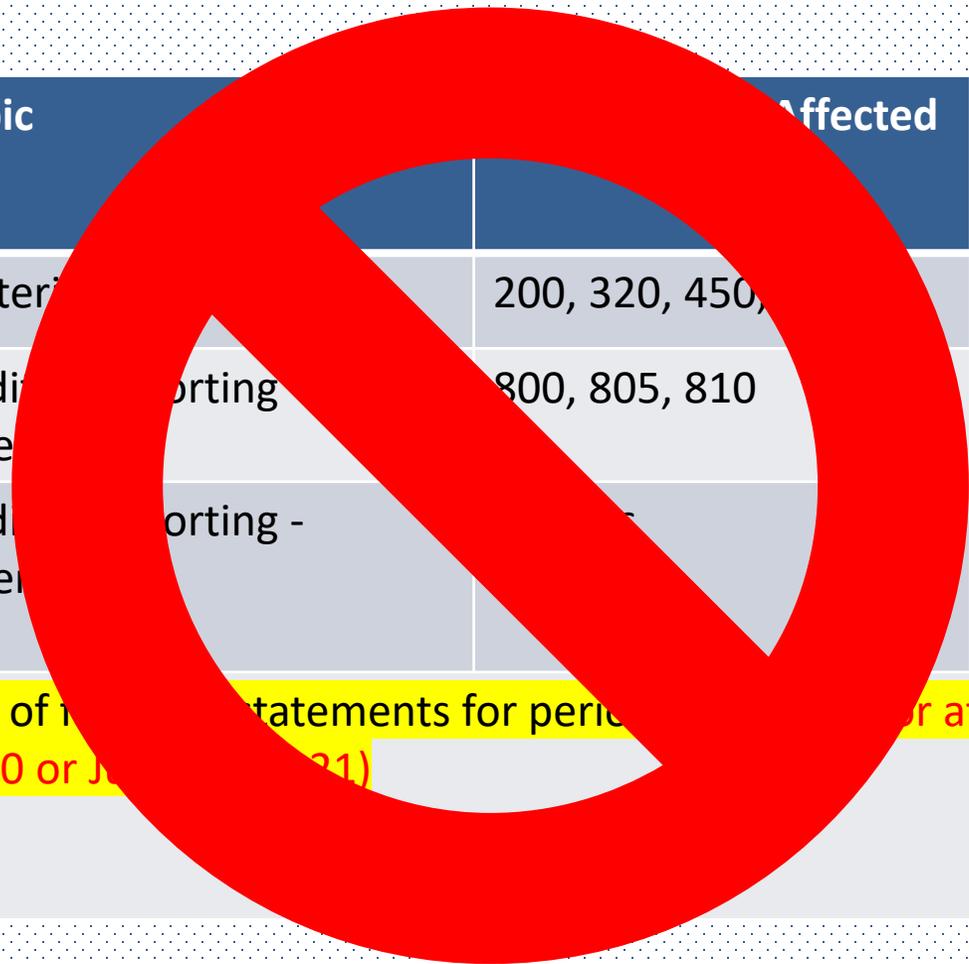
**Early
implementation
not permitted.**

Effective for audits of financial statements for periods ending **on or after** December 15, 2020. (12/31/20 or June 30, 2021)

Recently Issued Auditing Standards

SAS No.	Topic	Affected	Issued
138	Materiality	200, 320, 450,	Dec 2019
139	Auditing Reporting - External	800, 805, 810	March 2020
140	Auditing Reporting - External		April 2020

Effective for audits of financial statements for periods ending on or after December 15, 2020. (12/31/20 or June 30, 2021)



Early implementation not permitted. (With the exception of 138)

Recently Issued Auditing Standards

SAS No.	Topic	AU- C Section Affected	Issued	Effective Date
142	Audit Evidence	Various	July 2020	12/31/22 or 6/30/23
143	Auditing Accounting Estimates/Disclosures	Various	July 2020	12/31/23 or 6/30/24

SAS 141

Amendment to the Effective Dates of SAS Nos. 134-140

- 134-140 were effective for audits of financial statements for periods ending on or after December 15, 2020. (12/31/20 or June 30, 2021) 
- SAS 141, Amended those dates. The revised dates for 134-140 is December 15, 2021. (12/31/21 or June 30, 2022) 
- In addition, SASs 134-140, with the exception of SAS 138, did not permit early implementation. SAS 141 amends those SASs to allow early implementation. ASB recommends implementation of all the reporting standards at the same time.
- SAS 141 was effective upon issuance. (May 2020)

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
137	Other information	720
138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

Back To
SAS 134

SAS 134

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

SAS 134, Auditor Reporting and Amendments

- SAS No. 134 significantly **changes the form and content** of the auditor's report issued after auditing a set of financial statements. The SAS also addresses the **auditor's responsibility** to form an opinion on the financial statements.
- The auditor reporting suite of standards will benefit users of audited financial statements throughout the U.S. by placing the auditor's opinion at the front of the report for added visibility and providing necessary transparency into the basis for the auditor's opinion and the responsibilities of both entity management and auditors.

SAS 134, Auditor Reporting and Amendments

- SAS No. 134 is a **suite** of auditor reporting standards that includes a **new** AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, and **replaces** the following AU-C sections in AICPA Professional Standards:
 - Section 700, *Forming an Opinion and Reporting on Financial Statements*
 - Section 705, *Modifications 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 134, Auditor Reporting and Amendments

- “The auditor reporting suite of standards will benefit users of audited financial statements throughout the U.S. by placing the auditor’s opinion at the front of the report for added visibility and providing necessary transparency into the basis for the auditor’s opinion and the responsibilities of both entity management and auditors,” Bob Dohrer, CPA, CGMA, the AICPA’s chief auditor, said in a news release.
- In the past five years, the PCAOB and the IAASB have issued auditor reporting standards that are designed to assist practitioners in satisfying users’ needs for more information. The PCAOB standard requires reporting of “critical audit matters” that are discovered during the audit, while the IAASB standard instructs practitioners on the reporting of “key audit matters.”

SAS 134, Auditor Reporting and Amendments

- SAS No. 134 does not require reporting of key audit matters in an engagement but provides reporting requirements for communication of key audit matters in the auditor's report when the auditor is engaged to do so.
- SAS No. 134 addresses the auditor's responsibility to form an opinion on the financial statements and provides new guidance for the form and content of the auditor's report. The standard also contains requirements for 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.

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.**

Opinion Paragraph Presented First

Independent Auditor's Report

- [Appropriate Addressee]
- Report on the Audit of the Financial Statements¹
- Governmental Opinion (from AICPA Audit Guide for 4/21)
- We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of [Typical Entity], Alaska/Tennessee, as of and for the year ended [June 30, 201X], and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.
- In our opinion, based our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the [Name of Governmental Entity], as of June 30, 20X1, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Opinion Paragraph Presented First

Independent Auditor's Report

- [Appropriate Addressee]
- Report on the Audit of the Financial Statements¹
- Governmental Opinion (from AICPA Audit Guide for 4/21)
- If reference is made to other auditors work:
- We did not audit the financial statements of [identify organization, function, or activity], which represent XX% and XX%, respectively, of the assets and revenues of the [identify opinion unit(s)] as of June 30, 20X1, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended.⁶³ Those statements were audited by other auditors whose report has been furnished to us, and our [opinion(s)], insofar as it relates to the amounts included for [identify organization, function, or activity], [is(are)] based solely on the report of the other auditors.

Followed by the Basis for Opinion

- **Basis for Opinion (for all audits)**

- We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the [Entity], 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 opinions.

Current Letter under Extant Standards

- Report on the Financial Statements



- We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *[Typical County]*, Tennessee, as of and for the year ended *[June 30, 202X]*, and the related notes to the financial statements, which collectively comprise the county's basic financial statements as listed in the table of contents.



- *Management's Responsibility 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; this includes 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.

- *Auditor's Responsibility*



New Responsibilities for Management

- **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 the entity's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter. (Per SAS 132)

Current Letter under Extant Standards

- *Management's Responsibility 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; this includes 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.

- *Auditor's Responsibility*



New Auditor's Responsibilities

■ 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 opinions. **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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States 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 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. (see next slide)**

New Auditor's Responsibilities

- Auditor's Responsibilities for the Audit of the Financial Statements
- 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.
- Revised by SAS 138:
- Misstatements are considered 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.

New Auditor Responsibilities (cont'd)

- In performing an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, 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 Company'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 the entity's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.**

New Auditor Responsibilities (cont'd)

- 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.

Current Letter under Extant Standards

- *Auditor's Responsibility*

- Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



Definitions – Emphasis of a Matter and Other Matter

■ Emphasis of a Matter:

- Draws users' attention to a matter or matters appropriately **presented or disclosed in the financial statements** that are of such importance that they are fundamental to users' understanding of the financial statements (emphasis-of-matter paragraph).
- Should not include matters that require a modification of opinion, or key audit matters.
- Should reference any relevant disclosures.
- Should indicate that the auditor's opinion is not modified with respect to the matter.

Definitions – Emphasis of a Matter and Other Matter

■ Other Matter:

- Draws users' attention to **any matters other than those presented or disclosed in the financial statements** that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Communication with Those Charged with Governance

- If the auditor expects to include an emphasis-of-matter or other-matter paragraph in the auditor's report, the auditor **should communicate with those charged with governance** regarding this expectation and the wording of the paragraph. (Ref: par. .A16)

Definitions – Key Audit Matter

■ Key Audit Matter:

- Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters **are selected from matters communicated with those charged with governance.**
- Auditors are **not** required to include Key Audit Matters in the Independent Auditor's Report.

Definitions – Key Audit Matter

- If you had **Key Audit Matter**, or **Emphasis of Matter**, or **Other Matter Paragraphs**, where would they be presented in the Auditor's Report?:
 - After the auditor's opinion paragraph?
 - After the basis for opinion paragraph?
 - After the Auditor Responsibilities paragraph?

AU-C Section 706

- **Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report**
- **Illustration 2: An Auditor's Report That Includes a Key Audit Matters Section, an Emphasis-of-Matter Paragraph, and an Other-Matter Paragraph**

Emphasis of a Matter - Illustration

■ Emphasis of Matter

- As discussed in Note X to the financial statements, subsequent to the date of the financial statements, there was a fire in ABC Company's production facilities. Our opinion is not modified with respect to this matter.
- As noted in paragraph .A14, an emphasis-of-matter paragraph may be presented either directly **before or after** the "Key Audit Matters" section, based on the auditor's judgment about the relative significance of the information included in the emphasis-of-matter paragraph.

Key Audit Matters - Illustration

■ 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, 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.]

Other Matters - Illustration

■ Other Matter

- **The financial statements of ABC Company for the year ended December 31, 20X0, were audited by another auditor, who expressed an unmodified opinion on those statements on March 31, 20X1.**

Emphasis of a Matter “Requirements”:

- Paragraph .16c of section 560, Subsequent Events and Subsequently Discovered Facts
- Paragraphs .08–.09 and .11–.13 of section 708, Consistency of Financial Statements
- Paragraphs .19 and .21 of section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks

Emphasis of a Matter Issues

- An uncertainty relating to the future outcome of unusually important litigation or regulatory action
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position or results of operations
- Significant transactions with related parties
- Would not be disclosed as a "Key Audit Matter"
- Should indicate that the auditor's opinion is not modified with respect to the matter emphasized.

Other Matter “Requirements”:

- Paragraph .16c of section 560, Subsequent Events and Subsequently Discovered Facts
- Paragraphs .55–.56 and .58–.59 of section 700, Forming an Opinion and Reporting on Financial Statements, of this SAS
- Paragraphs 53, 92–93, 95–96, 121, and 133 of SAS Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
 - Paragraph .09 of section 725, Supplementary Information in Relation to the Financial Statements as a Whole
 - Paragraph .07 of section 730, Required Supplementary Information
 - The last two in red were deleted based on SAS 140 guidance.

Other Matter Requirements (cont'd)

- **Paragraph .20 of section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks**
- **Paragraph .13 of section 806, Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements**
- **Paragraph .07 of section 905, Alert That Restricts the Use of the Auditor's Written Communication**

Auditor Reports

■ How will SAS 134 affect your audits?

- **Will Change the format and wording of all Auditor Reports. Will require additional audit time in the year of implementation, but this should not be a budget breaker with a little planning.**
- **Introduces Key Audit Matters as a concept, but this will not create audit issues.**

SAS 135

SAS 135

- Omnibus Statement on Auditing Standards—2019

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
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138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

SAS 135, Omnibus Statement on Auditing Standards – 2019

- Proposed amendments to AU-C 260, *Communication with TCWG*, and AU-C 550, *Related Parties*, as well as various other sections
- Amendments intended to enhance audit quality by heightening the auditor's focus on
 - related parties and relationships and transactions with related parties
 - Significant unusual transactions
- ASB considered PCAOB AS 16, AS 17 and AS 18

SAS 135, *Omnibus Statement on Auditing Standards* – 2019

■ The FASB ASC glossary defines **related parties** as:

- a. Affiliates of the entity
- b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825–10–15, to be accounted for by the equity method by the investing entity
- c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d. Principal owners of the entity and members of their immediate families
- e. Management of the entity and members of their immediate families

SAS 135, Omnibus Statement on Auditing Standards – 2019

■ The FASB ASC glossary defines related parties as:

- f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. The FASB ASC glossary also defines the terms affiliate, control, immediate family, management, and principal owners.

SAS 135, Omnibus Statement

■ Increased communication with those charged with governance. AU-C 260

- Significant unusual transactions, if any.
- Matters that are difficult or contentious for which the auditor consulted **outside** the engagement team and that are, in the auditor's judgment, significant and relevant to TCWG regarding their responsibilities to oversee the financial reporting process.
- That uncorrected misstatements or matters underlying those uncorrected misstatements could potentially **cause future-period financial statements to be materially misstated**, even if the auditor has concluded the misstatements are immaterial to the current year financial statements.
- Documentation matters (mgmt. vs. auditor communications).

SAS 135, Omnibus Statement

■ More audit inquiries and audit evidence concerning **related party transactions**. AU-C 550

- The auditor should **inquire** of management **and others** within the entity regarding the business purpose of entering into a transaction with a related party versus an unrelated party.
- Modified or terminated transactions with related parties and the business purpose of the transactions.
- Inquiries should include asking about related parties that have not been authorized in accordance with established policies or procedures, and for which exceptions to those policies and procedures were granted.
- **Communicate with TCWG or the Audit Committee (or at least its chair) about their understanding of significant transactions with related parties, and whether TCWG have any concerns about the related parties, and if so, the substance of those concerns.**
- Communicate related parties with component auditors including the nature of the relationship and transactions with those related parties.

SAS 135, Omnibus Statement

■ More audit inquiries and audit evidence concerning **related party transactions**. AU-C 550

- Summaries of actions of recent meetings **for which minutes have not yet been prepared**.
- The terminology has been changed **from** “significant transactions outside the entity’s normal course of business” **to** “unusual transactions” throughout the amendments.
- “Rationale” has been changed to “purpose”.
- “Maintaining Alertness” has been changed to “Remaining Alert”.
- **Evaluate whether the entity has properly identified related party relationships. The evaluation should include procedures **to test** the accuracy and completeness of the relationships and transactions identified by the entity, taking into account information gathered during the audit.**
- Etc. Etc. Need to read the rest of the amendment, which is the longest part of SAS 135.

SAS 135, Omnibus Statement

■ Communications with the predecessor auditor about related party transactions. AU-C 210

- The auditor's inquiries of the predecessor auditor may include the predecessor auditor's understanding of the nature of the entity's relationships and transactions with related parties and significant unusual transactions.

SAS 135, Omnibus Statement

- **“Significant unusual transactions”** replaces “transactions that are outside the normal course of transactions for the entity or that otherwise appear to be unusual” within the context of **Fraud**. AU-C 240
 - *Significant unusual transactions* are those outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature.
 - **Fraud inquiries of management** should include whether the entity has entered into any *significant unusual transactions*, and if so, the nature, terms, and business purpose of those transactions and whether those transactions involved related parties.
 - **If an internal audit function exists**, ask whether they are aware that management has entered into any *significant unusual transactions*.
 - **Ask the same of TCWG (or the audit committee**, or at least its chair).
 - **Design audit procedures to test** unusual transactions (not new, just new terminology).
 - **Etc. Etc. Need to read the rest of the amendment, which is the second longest part of SAS 135.**

SAS 135, Omnibus Statement

■ “Significant unusual transactions” replaces “transactions that are outside the normal course of transactions for the entity or that otherwise appear to be unusual” within the context of **Fraud**. AU-C 240 (cont’d)

- The list of **Fraud Risk Indicators** has been expanded to include:
 - Related party transactions that are also *significant unusual transactions*.
 - Significant transactions with related parties whose financial statements are not audited or are audited by another firm.
 - Contractual arrangements lacking a business purpose.
 - The exertion of dominant influence by or over a related party.

SAS 135, Omnibus Statement

■ **Additional subsequent event inquiries** about related parties and unusual transactions. AU-C 560

- Whether there have been any changes in the entity's related parties.
- Whether there have been any significant new related party transactions.
- Whether the entity has entered into any *significant unusual transactions*.

SAS 135, Omnibus Statement

■ **Increased representations concerning related parties. AU-C 580**

- Management has disclosed to the auditor the identity of **ALL** the entity's related parties and all the related party transactions and transactions of which it is aware.
- May, if applicable, ask whether a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's length transaction.
- May ask, if applicable, whether any side agreements or other arrangements (either written or oral) exist that have not been disclosed to the auditor.

■ **Similar representations may be requested for Interim Financial Information. AU-C 930**

SAS 135, Omnibus Statement

■ Special Considerations – Audits of Group Financial Statements (including the work of Component Auditors).

- The **Group Auditor should communicate** its requirements to a component auditor that should include a list of related parties prepared by group management and any other related parties of which the group engagement team is aware, **including the nature of the entity's relationships and transactions with those related parties.**

Omnibus 2019

■ How will this affect your audits?

- **Will require additional documentation for Related Party Transactions and Unusual Transactions.**
- **The amount of documentation will not be overwhelming but will take additional planning and time.**
- **Additions to communications or inquiries with those charged with governance.**
- **Increased representation letter items.**

SAS 136

SAS 136

- **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
137	Other information	720
138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

MAJOR CHANGES: Auditor Reporting – Employee Benefit Plans - ERISA

ERISA limited scope
audit now referred to
as an ERISA section
103(a)(3)(C) audit

Electing to exclude
certain investments
no longer considered
a scope limitation

Reporting for ERISA Audits

■ How will this affect your audits?

- **Should make documentation some easier for ERISA 103(a)(3)(C) audits.**
- **Will change Auditor's report based on Statement 134. There are several examples in SAS 136 for different reporting types.**

SAS 137

SAS 137

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

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
137	Other information	720
138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

Other Information

- **SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports***
- **Supersedes AU-C section 720, *Other Information in Documents Containing Audited Financial Statements***
- **Issued July 2019**

Other Information

■ Definitions

- **Annual report**. A document, or combination of documents, typically prepared on an annual basis **by management** or **those charged with governance** in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. **An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon and usually includes information about the entity's developments**, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.
- **The term annual reports of governments is intended to include comprehensive annual financial reports** or other annual financial reports that include the government's financial statements and the auditor's report thereon. (Ref: par. A10)



Other Information

■ Examples (A13)

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' 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
- Other ... (list is not exhaustive)

Other Information

■ Scope

- The auditor's responsibilities relating to other information, other than applicable reporting requirements, apply regardless of whether the other information is obtained by the auditor **prior to** or **after** the date of the auditor's report.
- The auditor's responsibilities under this SAS **do not constitute an assurance** engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
- **This SAS does not apply to supplemental information addressed by AU-C section 725, Supplementary Information in Relation to the Financial Statements as a Whole, or required supplementary information addressed by AU-C section 730, Required Supplementary Information. (Ref: par. A2)**

Other Information

■ Requirements

- This SAS requires the auditor to **read and consider the other information** (think letter of **transmittal and statistical sections**) because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.
- **The objectives of the auditor, having read the other information, are as follows:**

Other Information

■ Requirements

- To consider whether a material inconsistency exists between the other information and the financial statements.
- To remain alert for indications that
 - a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit or
 - a material misstatement of fact exists or the other information is otherwise misleading
- To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be **materially** misstated.
- To report in accordance with this SAS

Other Information

■ Definitions

- Misstatement of the other information. A misstatement of the other information exists **when the other information is incorrectly stated or otherwise misleading**. (Ref: par. A11–A12).
- **Other information**. Financial or nonfinancial information (other than financial statements and the auditor's report thereon) included in an entity's **annual report**. (Ref: par. A13)

Other Information

- **Reporting 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] 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.**

Other Information

- **Reporting 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. **As described below, we have concluded that such an uncorrected material misstatement of the other information exists.**
- **[Description of material misstatement of the other information]**

Other Information – Current Reporting

- The *[introductory (and statistical) section(s)]* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Information

■ Question

- Does the Annual Report under SAS 137 include information in the Comprehensive Annual Financial Report Audit such as
 - Letter of Transmittal?
 - Combining Statements if not engaged to give an in-relation opinion?
 - Corrective Action Plans submitted by Management in compliance with regulations?
 - Introductory Section information such as a List of Officials and TCWG and Table of Contents?
 - Etc.
- What about the statistical Section?
- Mostly depends on the agreement with Management!

Reporting on Other Information

■ How will this affect your audits?

- **Very little practical effect (if you have already been reading and considering the accuracy of the information)**. More attention to details of some information presented within our Annual Comprehensive Financial Reports.
- The engagement letter should specify what the auditor's report responsibility is and is not.
- Will change Auditor's report if the report includes other information. Will add additional paragraphs.
- Will require additional documentation related to the other information.

SAS 138

Exposure Draft

Materiality

Materiality

Amendments to the Descriptions of the Concept of Materiality

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
137	Other information	720
138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

Materiality

- Definitions:
- The primary difference between the definitions held by the U.S. judicial system and other U.S. standard setters and regulators and the definitions currently held by the **ASB, IASB, and IAASB** relate to whether a misstatement “would influence the judgment of a **reasonable investor**” versus “could reasonably be expected to influence the judgment of a **reasonable person.**”
- In essence, the **U.S. judicial system** and other U.S. standard setters and regulators define an omission or misstatement as material if there is a substantial likelihood that a **reasonable person** would consider it important.
- The ASB, IASB, and IAASB definitions state that 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 taken on the basis of the financial statements (i.e. reasonable investor).**

Materiality

■ Definitions – Reasonable User:

■ For purposes of determining materiality, the auditor **may assume** that reasonable users -

- have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented, and audited to levels of materiality;
- recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- make reasonable judgments based on the information in the financial statements.

Materiality

■ History

- 1976: The U.S. Supreme Court Materiality – Person (would)
- 1980: FASB Defines Materiality - Person – (would)
- 1999: The SEC Provides Guidance – Person – (would)
- 1983 and 2006: ASB Issues SASs on Materiality – Person (could)
- 2009: IAASB Defines Materiality – Investor (could)
- 2010: IASB Defines Materiality – Investor (could)
- 2010: FASB Issues Concepts Statement No. 8 – Investor (could)
- 2010: PCAOB Issues Standard on Materiality – Person (would)

Materiality

■ History

- 2011: ASB Issues SAS No. 122, which adopts the IAASB, IASB, and FASB aligned definitions – **Investor (could)**
- 2018: FASB Amends Concepts Statement No. 8 – **Person (would)**
- 2018: IASB Amends Definition of Material – **Person (could)**
- 2019: ASB Proposes to Amend the Definition of Materiality and then issues Statement 138 in December 2019 – **Person (would)**

Materiality

■ How will this affect your audits?

- **Very little practical effect.**
- **Will change Auditor's report language in a minor way (as previously illustrated).**
- **May change documentation in various ways.**

SAS 139

■ **Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS 134**

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
137	Other information	720
138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

Special Reporting Considerations

■ This proposed amendments would implement the requirements of SAS 134 Auditor Reporting Amendments to:

- Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With **Special Purpose Frameworks**.
- Section 805, Special Considerations — Audits of **Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement**.
- Section 810, Engagements to Report on **Summary Financial Statements**.

Special Reporting Considerations

- Changes to AU-C Section 800
- The designation of the cash, tax, regulatory, contractual, and other bases of accounting as examples of special purpose frameworks rather than as part of the definition of special purpose framework
- The addition of an introductory paragraph stating that section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, applies to audits of special purpose financial statements
- Clarification that, in all audits of special purpose financial statements (irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements), the auditor is required to do the following:
 - Conclude whether substantial doubt exists about the **entity's ability to continue as a going concern** for a reasonable period of time.
 - When substantial doubt exists, evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework.
- For special purpose financial statements prepared in accordance with a contractual or other basis of accounting, a new requirement that the EOM paragraph in the auditor's report state that the financial statements may not be suitable for another purpose.

Special Reporting Considerations

- Changes to AU-C Section 805
- Addition of paragraph .A21, which indicates that the applicable financial reporting framework may not have a requirement for management to assess going concern for a single financial statement or element (or going concern may not be relevant at all to the framework). In those circumstances, the required statements in the auditor's report regarding management's and the auditor's responsibility for going concern would need to be adapted as necessary (or omitted if not relevant).
- Examples of factors that may be relevant in considering whether a matter included in the auditor's report on a complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element, account, or item of a financial statement.

Special Reporting Considerations

Appendix A — Overview of Reporting Requirements

The following table provides an overview of the reporting requirements depending on the special purpose framework:

	Cash Basis	Tax Basis	Regulatory Basis	Regulatory Basis (General Use)	Contractual Basis	Other Basis
Opinions	Single opinion on special purpose framework	Single opinion on special purpose framework	Single opinion on special purpose framework	Dual opinion on special purpose framework and generally accepted accounting principles ¹	Single opinion on special purpose framework	Single opinion on special purpose framework
Description of purpose for which special purpose financial statements are prepared ²	No	No	Yes	Yes	Yes	As required by paragraph .19aii, 18bii
Emphasis-of-matter paragraph alerting readers regarding the preparation in accordance with a special purpose framework ³	Yes	Yes	Yes	No	Yes	Yes
Other-matter paragraph including an alert restricting the use of the auditor's report ⁴	No	No	Yes	No	Yes	As required by section 905, Alert that Restricts the Use of the Auditor's Written Communication paragraph .21c
Exhibit A Illustrations	1	2	3	4	5	

Special Reporting Considerations

■ How will this affect your audits?

- **Limited effect – change of letter format**
- **Will require documentation of Going Concern considerations for Special Purpose Frameworks.**
- **Should not change other financial statement documentation.**

SAS 140

■ **Amendments to AU-C Sections 725, 730, 930, and 935 to Incorporate Auditor Reporting Changes from SAS 134 and 137**

Auditor Reporting Standards

SAS No.	Topic	AU- C Sec.
134	Auditor reporting, including key audit matters	700, 701(new), 705, 706
135	Omnibus SAS addressing related party transactions and significant unusual transactions	260, 550
136	EBP ERISA audits	703 (new)
137	Other information	720
138	Description of materiality	
139-140	Conforming amendments to other AU-C sections with reporting requirements	720, 725, 800, 805, 810, 930, 935, 940

Effective for audits of financial statements for periods ending on or after December 15, 2021. Early implementation permitted. (SAS No. 141)

Amendments to Incorporate Auditor Reporting changes.

- AU-C 725, Supplementary Information in Relation to the Financial Statements as a Whole
- AU-C 730, Required Supplementary Information
- AU-C 930, Interim Financial Information (Review Reports)
- AU-C 935, Compliance Audits (i.e. Single Audit reports on Compliance and Internal Controls)
- Mainly changes to various auditor reports to implement 134.

Example Letter – Compliance and Internal Control Over Major Programs – New Format

- Report on Compliance for Each Major Federal Program
- **Qualified and Unmodified Opinions**
- We have audited Example Entity's compliance with the types of compliance requirements⁶⁰ identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 20X1. Example Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.
- **Qualified Opinion on [Identify Major Federal Program]⁶¹**
- In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on [identify the major federal program] for the year ended June 30, 20X1.
- **Unmodified Opinion on Each of the Other Major Federal Programs⁶²**
- In our opinion, Example Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 20X1.

Example Letter – Compliance and Internal Control Over Major Programs – New Format

■ Basis for Qualified and Unmodified Opinions

- 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 Standards⁶³ issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200 , Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Example Entity's compliance with the compliance requirements referred to above.
- Matter(s) Giving Rise to Qualified Opinion on [Identify Major Federal Program]
- As described in the accompanying schedule of findings and questioned costs, Example Entity did not comply with requirements regarding [identify the major federal program and associated finding number(s) matched to the type(s) of compliance requirements; for example, Assistance Listing No. 93.600 Head Start as described in finding numbers 20X1-001 for Eligibility and 20X1-002 for Reporting].
- Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with the requirements applicable to that

Example Letter – Compliance and Internal Control Over Major Programs – New Format

- **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 Example Entity's federal programs.**

Example Letter – Compliance and Internal Control Over Major Programs – New Format

■ 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 above 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 the Uniform Guidance 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 each major federal program as a whole.
- In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, 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 the Uniform Guidance, 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.

Example Letter – Compliance and Internal Control Over Major Programs – New Format

- **Other Matters**
- **The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-003 and 20X1-004].⁶⁷ Our opinion on each major federal program is not modified with respect to these matters.**
- **Government Auditing Standards requires the auditor to perform limited procedures on Example Entity's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Example Entity's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.**

Example Letter – Compliance and Internal Control Over Major Programs – New Format

- **Report on Internal Control Over Compliance**
- **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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.**
- **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 with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 20X1-005 and 20X1-006] 72 to be material weaknesses.**
- **Cont'd on next page.**

Example Letter – Compliance and Internal Control Over Major Programs – New Format

- **A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 20X1-007 and 20X1-008] to be significant deficiencies.**
- **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.**
- **Government Auditing Standards requires the auditor to perform limited procedures on Example Entity's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Example Entity's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.**
- **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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.**

Example Letter – Compliance and Internal Control Over Major Programs – New Format

- **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**
- We have audited the financial statements of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. 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 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.
- [Signature of the auditor's firm]
- [City and state where auditor's report is issued]
- [Date of the auditor's report]82

Amendments to Incorporate Auditor Reporting changes.

■ How will this affect your audits?

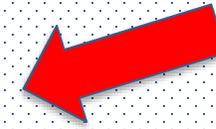
- **Will significantly change of Auditor Reports format for Reviews of Interim Financial Statements and Reports on Compliance and Internal Control for Compliance Audits**
- **Will not change documentation.**

SAS 142

■ Audit Evidence

Recently Issued Auditing Standards

SAS No.	Topic	AU- C Section Affected	Issued	Effective Date
142	Audit Evidence	Various	July 2020	12/31/22 or 6/30/23
143	Auditing Accounting Estimates/Disclosures	Various	July 2020	12/31/23 or 6/30/24



Audit Evidence

- In August 2017, the ASB began a project to assess whether revisions of AU-C section 500 are necessary to address the **evolving nature of business and audit services and issues that have** arisen during the standard-setting activities of the ASB.
- **These issues include use of emerging technologies by both preparers and auditors, audit data analytics (ADA), the application of professional skepticism, the expanding use of external information sources as audit evidence, and more broadly, the accuracy, completeness, and reliability of audit evidence.**

Audit Evidence

- .A27 Unconscious or conscious auditor biases may affect the auditor's professional skepticism and professional judgment, including, for example, in the design and performance of audit procedures or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the maintenance of professional skepticism and, therefore, the reasonableness of the professional judgments made by the auditor in complying with the requirements of this SAS, may include the following:
 - **Availability bias**, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not
 - **Confirmation bias**, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief
 - **Overconfidence bias**, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions
 - **Anchoring bias**, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed
 - **Automation bias**, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions about whether such output is reliable or fit for purpose

Audit Evidence

- Emerging Techniques and Technologies
- Emerging audit techniques, such as **ADA**, and emerging technologies, such as **artificial intelligence (AI)**, **robotic process automation (RPA)**, and **blockchain**, offer both challenges and opportunities that will affect audits of financial and nonfinancial information into the foreseeable future.
- For the purposes of this proposed SAS, the phrase “automated tools and techniques” will be used to refer to both emerging audit techniques and emerging technologies.
- There is ongoing activity in the United States and internationally regarding how the profession should respond to such automated tools and techniques, including consideration of whether changes to professional standards would enhance audit quality and make the standards more relevant in today’s environment.

Audit Evidence

- **Professional Skepticism**
- In recent years, the IAASB has had a working group considering the topic of **professional skepticism**. The projects on quality control, group audits, and professional skepticism represented the three areas for which the IAASB sought input from responders in Invitation to Comment (ITC) Enhancing Audit Quality in the Public Interest, issued in January 2016.
- As explained in the ITC, the ISAs explicitly recognize the fundamental importance of professional skepticism. Professional skepticism includes being alert to audit evidence that contradicts other audit evidence obtained or information that brings into question the reliability of documents or responses to inquiries to be used as audit evidence.
- **The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary**. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.

Audit Evidence

■ Professional Skepticism

■ The key issues identified with respect to professional skepticism are as follows:

- Questions have been raised about how auditors can more clearly demonstrate the application of professional skepticism, how to better describe the basis for the auditor's professional judgments, and how the auditor's mind-set has affected the nature, timing, and extent of audit procedures performed as well as the critical evaluation of audit evidence.
- Concern about instances in which auditors did not appropriately apply professional skepticism in their audits is a recurring theme in audit inspection findings globally and has been a key issue in discussions about audit quality. Regulatory bodies have suggested that enhanced professional skepticism by auditors will contribute significantly to improving the quality of audits and that firms should prioritize efforts in this area.
- The existence of many ways to describe the application of professional skepticism indicates that the concept of professional skepticism, and the expectations of how auditors should appropriately apply it, may need to be more clearly articulated in our standards.

Audit Evidence

- Professional Skepticism
- **Having a separate section of a proposed SAS labeled “professional skepticism” or merely using the words “professional skepticism” throughout the proposed SAS is not sufficient to achieve the objectives outlined here. (Exposure Draft, 6/20/2019)**

Professional Skepticism -2017

- *But for all of this guidance, there is very little of the guidance linking the standards “about” skepticism with, “how” to be skeptical!*
- There are efforts ongoing as we speak.
- PCAOB, IAASB, Auditing Standards Board, large accounting firms, Academia

Audit Evidence

■ External Information Sources

- In September 2018, the IAASB issued ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures. In finalizing ISA 540 (Revised), the IAASB also issued a series of conforming amendments to other ISAs, including conforming amendments to ISA 500, Audit Evidence.
- In general, the conforming amendments **include a new definition of external information sources, related application material to the definition,** and other application material that further explains the concept of external information sources. This proposed SAS includes substantially all of the IAASB's conforming amendments to ISA 500.
- We will discuss the definition shortly.

Audit Evidence

- **Sufficiency and Appropriateness**
- Extant AU-C section 500 contains separate definitions of **sufficiency (a measure of quantity) and appropriateness (a measure of quality)**. The ASB believes that audit evidence always has to first be appropriate for the auditor's intended purposes; the key question, then, is whether the auditor has obtained enough of such audit evidence for the auditor's intended purpose.
- In the proposed SAS, the ASB retained separate definitions of sufficiency and appropriateness.
 - The definition of appropriateness remains largely the same as the extant definition.
 - However, the ASB proposes to amend the definition of sufficiency to focus on the measure of the **persuasiveness** of audit evidence rather than emphasizing the **quantity** of audit evidence. The ASB believes that this change is important because, with the array of automated tools and techniques available to the auditor in today's environment and the different nature and sources of information available, the **quantity of audit evidence, in itself, may not** be determinative of its sufficiency.

Audit Evidence

- This standard is closely aligned with the requirements of “professional skepticism”, and the risk assessment procedures.
- A matter of professional judgment, but based on evidence.
- Still must achieve “sufficient appropriate” audit evidence, but this standard raises the bar on what those terms mean. Together, the terms emphasize the “persuasiveness” of the evidence.
- Evidence must be evaluated. The objective of an auditor is to evaluate the evidence to ensure sufficient appropriate evidence has been obtained.
- The auditor’s evaluation of audit evidence is not a formulaic exercise, and is dependent on the degree to which each attribute of the audit evidence influence the auditor’s evaluation.

Audit Evidence

■ Definitions: For purposes of generally accepted auditing standards (GAAS), the following terms have the meanings attributed as follows:

- **Appropriateness** (of audit evidence). The measure of the **relevance and reliability** of audit evidence.
- **Sufficiency** (of audit evidence). The measure of the **persuasiveness** of audit evidence. The persuasiveness of audit evidence necessary is affected by the auditor's assessment of the risks of material misstatement. (Ref: par. A5)
- **Audit evidence**. Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. (Ref: par. A6–A7)
- **External information source**. An individual or organization external to the entity that develops information used by the entity in preparing the financial statements or used by the auditor as audit evidence, when such information is available for use by a broad range of users. **When information has been provided by an individual or organization acting in the capacity of management's specialist, service organization, or auditor's specialist, the individual or organization is not considered an external information source with respect to that particular information.** (Ref: par. A8)

Audit Evidence

■ Requirements – Evaluating the Information to be used as Evidence

The auditor “should” **evaluate** information to be used as audit evidence by taking into account (Ref: par. .A11)

- a. the relevance and reliability of the information, including its source, and (Ref: par. .A12—.A34)
- b. whether such information corroborates or contradicts assertions in the financial statements. (Ref: par. . A35—.A38)

Audit Evidence

■ **Requirements** – Evaluating the Information to be used as Evidence (cont'd)

The auditor's **evaluation** of the information to be used as audit evidence in accordance with paragraph .07 “should” include

- a. evaluating whether the information is sufficiently precise and detailed for the auditor's purposes and (Ref: par. .A39)
- b. obtaining audit evidence about the accuracy and completeness of the information, as necessary (Ref: par. .A40—.A42).

Audit Evidence

■ Requirements – Audit Procedures as a Basis for Concluding on the Sufficiency and Appropriateness of Audit Evidence

In **evaluating** information to be used as audit evidence, the auditor “should” consider **whether** the results of audit procedures **provide a basis** for concluding on the sufficiency and appropriateness of audit evidence obtained. (Ref: par. .A43—.A64)

Audit Evidence

- **Requirements – Inconsistencies in, or Doubts About the Reliability of, Audit Evidence**
- The auditor “**should**” determine whether modifications or additions to audit procedures are necessary to resolve inconsistencies in, or doubts about the reliability of, audit evidence, including when
 - a. audit evidence obtained from one source is inconsistent with that obtained from another source.
 - b. the results of an audit procedure are inconsistent with the results of another audit procedure.

Audit Evidence

- **That's all the requirements!**
- **The bulk of this standard is in the Application Guidance.**

Audit Evidence

Extant objective:

- “The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence...”

Proposed objective:

- “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 has been obtained.”

Audit Evidence

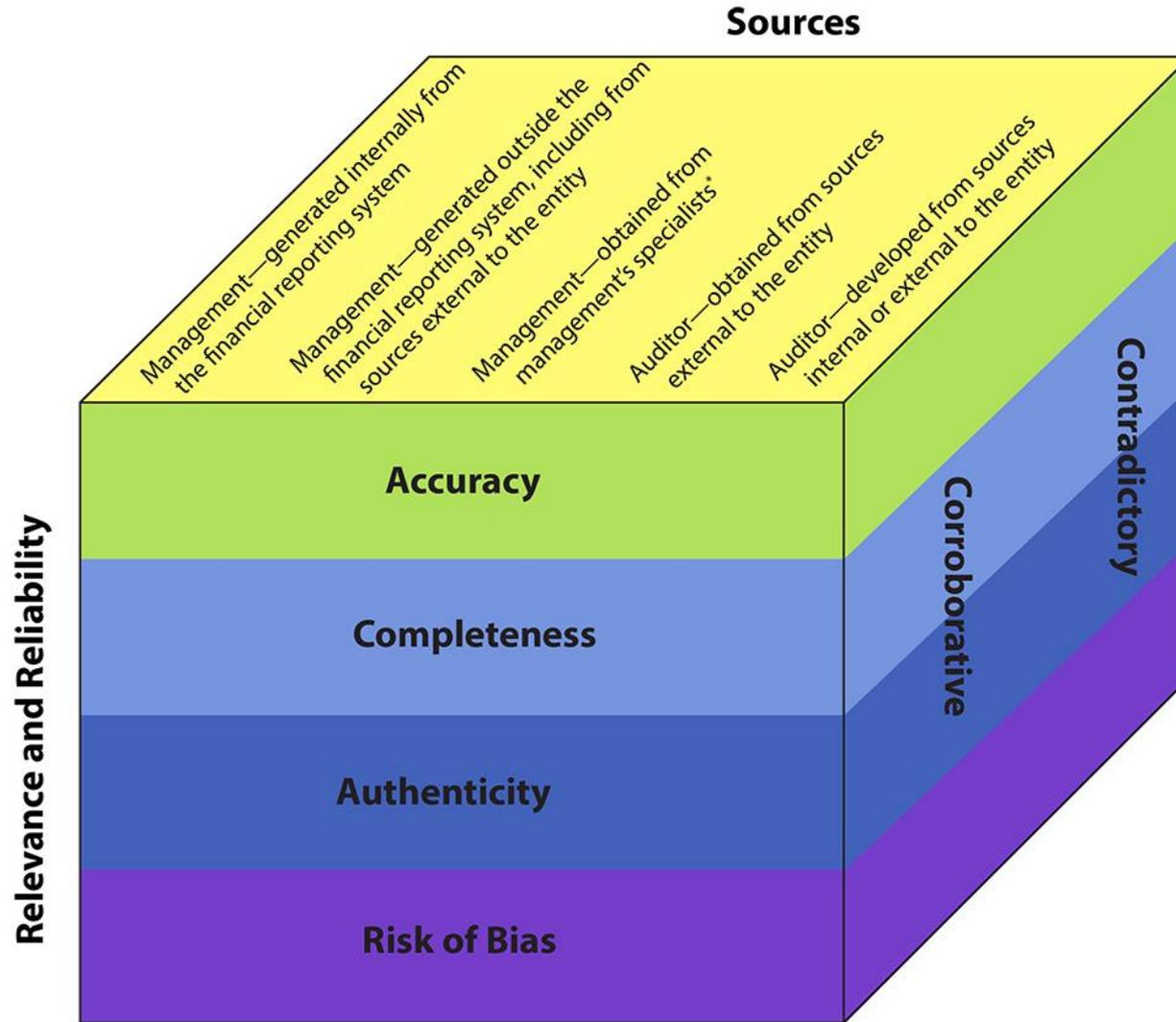
“Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements.”

ASB Summary - Audit Evidence

- Revising an objective currently focused on the design and performance of audit procedures.
- Developing a framework for **evaluating audit evidence** based on
 - appropriateness (relevance and reliability), and
 - sufficiency (persuasiveness)
 - Shift focus from **quantity** to **persuasiveness**

“The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence...”

Audit Evidence – NEW MAIN THEME



As a basis for concluding whether sufficient appropriate audit evidence has been obtained, the objective of the auditor is to **evaluate** information to which audit procedures have been applied to determine whether such information is appropriate audit evidence.

Audit evidence should be considered notwithstanding the source from which it is obtained or the method used to obtain the information.

Evidence

■ How will this affect your audits?

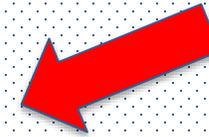
- **Significant practical effect. Will require more documentation to evaluate the evidence to demonstrate sufficient appropriate audit evidence, professional skepticism, and the risk assessment.**
- **May change documentation in multiple ways.**
- **Will require more audit time.**

SAS 143

■ Auditing Accounting Estimates and Related Disclosures

Recently Issued Auditing Standards

SAS No.	Topic	AU- C Section Affected	Issued	Effective Date
142	Audit Evidence	Various	July 2020	12/31/22 or 6/30/23
143	Auditing Accounting Estimates/Disclosures	Various	July 2020	12/31/23 or 6/30/24



Estimates

■ Every standard setter is concerned about estimates.

- IAASB
 - Credit loss models for loan loss provisions.
 - Need to foster an improved exercise of professional skepticism.
 - Issued ISA 540, Auditing Accounting Estimates and Related Disclosures.
- PCAOB
 - Issued AS 2501, Auditing Accounting Estimates, Including Fair Value Measurements
- ASB
 - Nonconformity in this area is the most common audit issue detected by practice monitoring programs worldwide. Followed IAASB and PCAOB.
 - The ASB believes the proposed changes will help auditors to perform appropriate audit procedures relating to auditing accounting estimates and related disclosures and will drive auditors to exercise professional skepticism, thereby improving audit quality.

SAS 143, Estimates: Fundamental Aspects

- Explains the nature of accounting estimates and the concept of **estimation uncertainty**
- Address **scalability** of the SAS for all types of accounting estimates, from relatively simple to complex
- Requires a **separate assessment of inherent risk and control risk**
- Includes **risk assessment** requirements more specific to estimates and addresses the increasingly complex business environment and complexity in financial reporting frameworks
- Addresses the exercise of **professional skepticism** when auditing accounting estimates

Intended to enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates

SAS 143, Auditing Accounting Estimates and Related Disclosures

- Issued July 2020
 - Effective for audits of financial statements for periods ending on or after December 15, 2023
 - Supersedes AU-C section 540
 - Converges with ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*
 - Addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements.
-

**Effective for periods
ending on or after
December 15, 2023**

SAS 143, Estimates: Fundamental Aspects

- Emphasizes that further audit procedures need to be responsive to the reasons for the assessed risks of material misstatement at the relevant assertion level
- Emphasizes the importance of the auditor's decisions about controls relating to accounting estimates by providing estimates-specific guidance on relevant requirements in other AU-C sections
- 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 the context of the applicable financial reporting framework.

Consistent with the risk assessment project to revise AU-C 315 currently in process

Estimates

■ Fundamental Aspects of the Standard.

- Concept of Estimation Uncertainty
- Separate assessment of Inherent Risk and Control Risk.
- Concept of **Spectrum of Inherent Risk**. (i.e. Appendix A)
- Scalability for all types of accounting estimates, from simple to complex, based on Estimation Uncertainty.
- **Enhanced risk assessment** based on complexity, subjectivity, and estimation uncertainty.
- **Increased importance** of professional skepticism as risk factors increase.
- **Evaluation** of the Estimates.
- **Additional Communication** with TCWG may be considered (i.e. Appendix B).

Estimates

■ How will this affect your audits?

- **Significant practical effect for larger more complex audits that involve complex estimates.**
- **Will change documentation in multiple ways.**
- **Will require significant more audit time if the audit involves complex estimates.**

New Standards –
Not Yet Effective

*SAS 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*

144 is effective for audits of financial statements for periods ending on or after December 15, 2023 (FYE 6/30/2024).

Early implementation is permitted.

SAS 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

145 is effective for audits of financial statements for periods ending on or after December 15, 2023 (FYE 6/30/2024).

Early implementation is permitted.

Let it End!

“If you want a happy ending, that depends, of course, on where you stop your story”

Orson Welles, actor, director, screenwriter, producer



The End!

For Auditing Standards!

Thank you!



Questions!



Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE

**The End!
Really,
Trust Me.**

Thank you!