





SAS Updates

**Association of Government Accountants
Phoenix Chapter – Professional Development Training**

April 30, 2021
Michael G. Stelpstra, CPA




1



Auditing Standards Effective June 30, 2022

- **SAS 141**—Amendment to effective dates of SAS 134-140
- **SAS 134**—Auditor reporting and amendments, including amendments addressing disclosures in the audit of financial statements
- **SAS 135**—Omnibus Statement on Auditing Standards – 2019
- **SAS 136**—Forming an opinion and reporting on financial statements of employee benefit plans subject to ERISA
- **SAS 137**—The auditor’s responsibilities relating to other information included in annual reports



2

Auditing Standards Effective June 30, 2022



- **SAS 138**—Amendments to the description of the concept of materiality
- **SAS 139**—Amendments to AU-C Sections 800, 805, and 810 to incorporate auditor reporting changes from SAS No. 134
- **SAS 140**—Amendments to AU-C Sections 725, 730, 930, 935, and 940 to incorporate auditor reporting changes from SAS Nos. 134 and 137



3

SAS 134



Includes the following sections:

- 700—Forming an opinion and reporting on financial statements
- 705—Modifications to the opinion in the independent auditor's report
- 706—Emphasis-of-matter paragraphs and other-matter paragraphs in the independent auditor's report
- 701—Communicating key audit matters in the independent auditor's report



4

SAS 134—Section 700



- Forming an opinion on the financial statements
 - Evaluating disclosures
 - Other amendments throughout standards related to disclosures including:
 - Section 315, Understanding the entity and its environment and assessing the risks of material misstatements
 - Section 330, Performing audit procedures in response to assessed risks

- Form of opinion



5

The revised auditor's report



Independent Auditor's Report

[Appropriate Addressee]

Report on **the Audit of** the Financial Statements

Opinion

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

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



6

The revised auditor's report



Basis for Opinion

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

Possible sources of ethical requirements:

- AICPA Code of Professional Conduct
 - ET §0.300 Principles of Professional Conduct
- State Board of Accountancy rules
- *Government Auditing Standards*
- Applicable regulatory agencies



7

The revised auditor's report



Responsibilities of Management for the Financial Statements

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

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



8

The revised auditor's report

Auditor's Responsibilities for the Audit of the Financial Statements

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



9

SAS 138

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

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



10

The revised auditor's report

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC 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 ABC Company's ability to continue as a going concern for a reasonable period of time.



11

The revised auditor's report

Auditor's Responsibilities for the Audit of the Financial Statements (Concluded)

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.

[Emphasis-of-matter and other matter paragraphs]

[Signature of the auditor's firm]

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

[Date of the auditor's report]



12

SAS 134 and 140—Section 706



- No change to standard except placement
- No longer emphasis-of-matter:
 - Going concern
- No longer other matter:
 - Material inconsistencies identified prior to the report release date that require revision of the other information
 - Required supplementary information
 - Supplementary information



13

SAS 134—Section 570



- Adds that when going concern disclosure is not adequate, the basis for qualified (adverse) opinion section should state:
 - substantial doubt exists about the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter or
 - substantial doubt about the entity's ability to continue as a going concern has been alleviated by management's plans but the financial statements do not adequately disclose this matter.
- Changes going concern from an emphasis-of-matter paragraph to separate section



14

SAS 137



Adds definition of 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. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public.



15

SAS 137



- Requires agreement on what is annual report
- Expands requirements to read the other information
- Adds reporting



16

SAS 137



Other Information

Management is responsible for the other information. 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.



17

SAS 134—Section 705



- Section is reorganized
- No change to types of modified opinions or when modifications are applicable
- In the case of disclaimer, adds:

We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.



18

SAS 139

- Section 800—Audits of financial statements prepared in accordance with special purpose framework
- Section 805—Audits of single financial statements and specific elements, accounts, or items of a financial statement
- Section 810—Engagements to report on summary financial statements



19

SAS 140

- Section 725—Supplementary information in relation to the financial statements as a whole
- Section 730—Required supplementary information
- Section 930—Interim financial information
- Section 935—Compliance audits
- Section 940—An audit of internal control over financial reporting that is integrated with an audit of financial statements



20

SAS 135—Section 260



- Communicate with those charged with governance
 - Significant unusual transactions
 - Matters that are difficult or contentious
- Uncorrected misstatements
- Form of communication



21

SAS 135—Section 550



- Inquiry of management to identify related parties and transactions:
 - Others within the entity
 - Business purpose of transaction

Risk assessment—inquiry about:

- Transactions not authorized in accordance with established procedures
- Transactions with exceptions to established procedures

Inquiry of governance



22

SAS 135-Section 240

- “Significant transactions outside the entity’s normal course of business” to “significant unusual transactions”
- Inquiry of management
- Inquiry of internal audit
- Inquiry of governance



23

Auditing Standards Effective June 30, 2023

- **SAS 142**—Audit evidence
 - Sufficient appropriate audit evidence
 - Automated tools and techniques
 - Professional skepticism
 - Management specialists
- **SAS 143**—Auditing accounting estimates and related disclosures (portions amending SAS 134 and SAS 136)
 - Section 700, Forming an Opinion and Reporting on Financial Statements
 - Section 701, Communicating Key Audit Matters in the Independent Auditor’s Report
 - Section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA



24

Auditing Standards Effective June 30, 2024



- **SAS 143**—Auditing accounting estimates and related disclosures (Section 540)



25

SAS Exposure Drafts



- Understanding the entity and its environment and assessing the risks of material misstatement
 - Comment due date: November 25, 2020
 - Proposed effective date: June 30, 2024
- 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
 - Comment due date: February 4, 2021
 - Proposed effective date: June 30, 2024



26

SAS Exposure Drafts



- Quality management for an engagement conducted in accordance with generally accepted auditing standards
 - Comment due date: August 31, 2021
 - Proposed effective date: June 30, 2025
- Inquiries of the predecessor auditor regarding fraud and noncompliance with laws and regulations
 - Comment due date: June 30, 2021
 - Proposed effective date: June 30, 2023



27



Questions:

Assurance and Quality Control Team

aqc@azauditor.gov

602-553-0333



28