  
AICPA & CIMA  
Member Services & Audit and Attestation Standards

## Auditing Standards Update

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### Disclaimer

Views expressed by ASB Board members and AICPA employees are expressed for purposes of deliberation, providing member services and other purposes exclusive of practicing public accounting. The views expressed do not necessarily represent the official views of the AICPA unless otherwise noted. Official AICPA positions are determined through certain specific committee procedures, due process and deliberation.

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### Agenda

Introduction
Recently issued audit standards <ul style="list-style-type: none"><li>• Audit evidence</li><li>• Accounting estimates</li><li>• Use of specialists</li><li>• Risk assessment</li><li>• Noncompliance with laws and regulations (NOCLAR)</li><li>• Compliance audits</li></ul>
Brief reminder regarding new auditor reporting suite of standards
Recently issued quality management standards
Exposure drafts <ul style="list-style-type: none"><li>• Group Audits</li></ul>
Strategy and Work Plan
Questions

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## ASB Mission and Members

19 ASB MEMBERS



The ASB is a senior committee of the AICPA designated by Council to issue auditing, attestation, and quality control standards and practice guidance for performing and reporting on audit and attestation engagements for non-issuers.

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### Effective dates of new standards

Standard	Description	Effective date
SASs		Audits of financial statements for:
134	Auditor reporting and amendments	Periods ending on or after December 15, 2021
135	Omnibus – certain changes to conform to PCAOB standards	Periods ending on or after December 15, 2021 (Except amendments to AU-C 930 – effective for interim periods of fiscal years ending on or after December 15, 2021)
136	Auditor reporting on employee benefit plans	Periods ending on or after December 15, 2021
137	Other Information included in annual reports	
138	Amendments to the description of materiality	
139	Amendments to AU-C 800, 805, 810 for auditor reporting changes	
140	Amendments to AU-C 725, 730, 935, and 940 for auditor reporting changes Amendments to AU-C 930	Periods ending on or after December 15, 2021 (Except amendments to AU-C930 – effective for interim periods of fiscal years beginning on or after December 15, 2021)
141	Deferral of effective dates for SAS 134-140	Effective upon issuance

Early implementation permitted.

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### Effective dates of new standards (cont.)

Standard	Description	Effective date
SASs		Audits of financial statements for:
142	Audit evidence	Periods ending on or after December 15, 2022
143	Auditing accounting estimates and related disclosures	Periods ending on or after December 15, 2023
144	Use of specialists and use of pricing information	
145	Risk assessment	
146	Quality management for an engagement performed in accordance with GAAS	Engagements conducted in accordance with GAAS for periods beginning on or after December 15, 2025
147	Inquiries of the predecessor auditor regarding fraud noncompliance with laws and regulations	Periods <b>beginning</b> on or after June 30, 2023

Early implementation permitted.

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Effective dates of new standards (cont.)

SQMSs		
SQMS 1	A Firm's System of Quality Management	Systems of quality management in compliance with this SQMS are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management is required to be performed within one year following December 15, 2025.
SQMS 2	Engagement Quality Reviews	audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025.

Early implementation permitted.

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Recently issued auditing standards  
(other than auditor reporting and  
quality management)  
SAS Nos. 142-145 and 147

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SAS No. 142, *Audit Evidence*

- Addressing evolving nature of audit services 
- Emerging tools and techniques, including data analytics 
- Professional skepticism 
- External information sources 

ASB took the lead;  
IAASB has a current  
open project.

**Effective for  
periods ending on  
or after December  
15, 2022**

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**SAS 142, Audit Evidence**

**Old objective:**

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

**New 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."*

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**SAS 142, Audit Evidence**

- Develops a framework for evaluating attributes of audit evidence to evaluate
  - Sufficiency and
  - Appropriateness
    - relevance and reliability (including its source)
  - Whether the information corroborates or contradicts management's assertions
  - Whether the information is sufficiently precise and detailed

**Sufficiency and appropriateness together affect the persuasiveness of audit evidence**

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**SAS 142, Audit Evidence**

- Explains relationship between AU-C 500 and AU-C 330
- AU-C 330 requires that sufficient appropriate evidence be obtained to provide a basis for the auditor's report
- AU-C 330 requires that the higher the risk of material misstatement, the more persuasive audit evidence should be
  - Persuasive = amount of appropriate evidence

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**SAS 142, Audit Evidence—Sources**

Management

External information sources and other external parties

Auditor

*“Information to be used as audit evidence may be obtained directly or derived individually or in combination from different sources”*

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**SAS 142, Audit Evidence Reliability**

Accuracy

Completeness

Authenticity

Susceptibility to Management's Bias

*“The reliability of information to be used as audit evidence is affected to varying degrees by the following attributes, individually or in combination”*

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**SAS 142, Audit Evidence - Audit Procedures**

Test of Controls

Risk Assessment Procedures

Substantive Audit Procedures

Audit Evidence

*“The auditor may use automated tools and techniques to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence.”*

*“An auditor may use automated tools and techniques to perform both a risk assessment procedure and a substantive procedure concurrently.”*

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### 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
- 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

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### 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 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

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### 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 SAS No. 145

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### 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
  - Issued June 2021
  - Effective for audits of financial statements for periods ending on or after December 15, 2023
  - Adapts PCAOB Appendices on pricing sources
  - Provides additional guidance on the use of specialists, both auditor's and management's



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

#### Why?

- Significant area of peer review findings
- Challenges related to the extent to which understanding of internal control is necessary
- Scalability concerns and challenges

#### Status

- Issued October 2021
- Effective for audits of periods ending on or after December 15, 2023



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### SAS 145

- Major areas of revision (cont'd)
  - 5 new inherent risk factors: subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud.
  - Requiring separate assessments of inherent and control risk
    - If no tests of controls are performed, RoMM = IR
  - Requiring for "sufficient, appropriate" evidence as basis for risk assessment
  - Stand-back requirement for material COTABDs not assessed as significant



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### SAS 145, New and Revised Risk Assessment Terminology & Concepts

- Inherent risk factors
- Spectrum of inherent risk
- Significant class of transactions, account balance, or disclosure
- Relevant assertion and reasonable possibility
  - Likelihood
  - Magnitude
  - More than remote
- Significant risk

Significant risk:  
An identified risk of material misstatement:

- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirements of other AU-C sections.

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### SAS No. 147, Inquiries of the Predecessor Auditor Regarding Fraud and NOCLAR

- Issued June 2022
- Effective for audits of financial statements for periods **beginning** on or after June 30, 2023.
- Issued in conjunction with Interpretations to Code of Ethics
- Addresses predecessor/successor communication around NOCLAR




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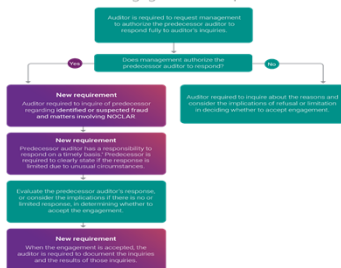
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### SAS No. 147

Before engagement acceptance




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Auditor reporting: SAS No. 134-140

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

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Significant Changes to the Auditor's Report	
<ul style="list-style-type: none"> <li>• Opinion section first</li> <li>• "Basis for Opinion" section second and includes a statement that                             <ul style="list-style-type: none"> <li>• the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit</li> </ul> </li> <li>– Key Audit Matters section (New AU-C section 701)                             <ul style="list-style-type: none"> <li>• Not Mandatory: only include if engaged to include (agreed in terms of engagement that report will include KAMs)</li> <li>• If included, requirements apply</li> <li>• "What keeps the auditor up at night"</li> <li>• Selected from matters communicated with TCWG</li> </ul> </li> </ul>	

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### Significant Changes to the Auditor's Report cont'd

- Expanded descriptions of the responsibilities of
  - management relating to going concern evaluation, when required by the applicable financial reporting framework
  - the auditor, including relating to
    - professional judgment and professional skepticism
    - going concern
    - communications with those charged with governance

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### SAS No. 138 and SSAE No. 20, *Amendments to the Description of the Concept of Materiality*

- Issued December 2019
- Amends AU-C section 320 and various other AU-C and AT-C sections – not intended to change US practice
- Amendments intended to eliminate inconsistencies between the AICPA *Professional Standards* and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators.
  - Is in the public interest to have a consistent description
- Prompted by recent FASB amendment of its description of materiality to be more consistent with others in the US

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

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### SAS No. 137: 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*
- Clarifies the auditor is required to apply procedures only to other information included in annual reports (or similar documents).
- Revises work effort to require the accountant to remain alert for information that is misleading, including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information
- Requires a separate section be included in the auditor's report addressing OI

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- Clarifies the auditor is required to apply procedures only to other information included in annual reports (or similar documents).
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Recently issued quality management standards  
SQMS Nos. 1 and 2 and SAS No. 146

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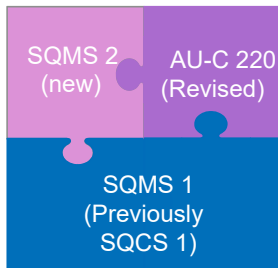
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### Statements on Quality Management Standards

- Proposed Statement on Quality Management Standards (SQMS) 1, *A Firm's System of Quality Management*
- Proposed SQMS 2, *Engagement Quality Reviews* (New!)
- Proposed SAS, *Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards*
- Related conforming amendments



*Affects every firm that performs engagements in accordance with SASs, SSAEs or SSARS.*

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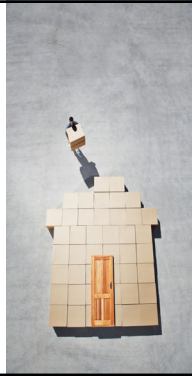
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### QM: Why Now?

- Proposed standards influenced by:
  - Results of peer reviews
  - Studies by other regulators and standard setters, including IAASB and PCAOB
- Updating the standards for advances and changes in the business environment since 2006
- Create a more scalable approach to quality for firms of all sizes
- Help firms identify and address risks specific to their practice – and therefore address potential issues with quality, consistency, leadership and governance



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### Key SQMS 1 Aspects

Key aspects that clarify and improve existing SQSC include:

1. New **risk-based approach** focused on **quality management**
2. **Revised components** of the system of quality management
3. **New risk assessment process**
4. **More robust** leadership and governance requirements
5. **Enhanced** monitoring and remediation process
6. **New requirements** for networks and service providers



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### Key SQMS 1 Changes from ED Proposals

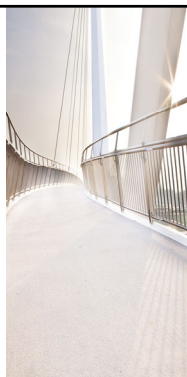
#### 1. Self-inspection

- The ED proposes a requirement that inspections be performed by someone independent of the engagement team.
- Based on feedback, the ASB directed that self-inspection, while not optimal, would not be precluded.

#### 2. Cooling-off period for EQCR

- The ED proposes a requirement that the engagement partner have a two year cooling off period before becoming EQCR.
- Based on feedback, the ASB directed that no cooling-off period be required.

**Risk assessment and safeguards approach to be taken**



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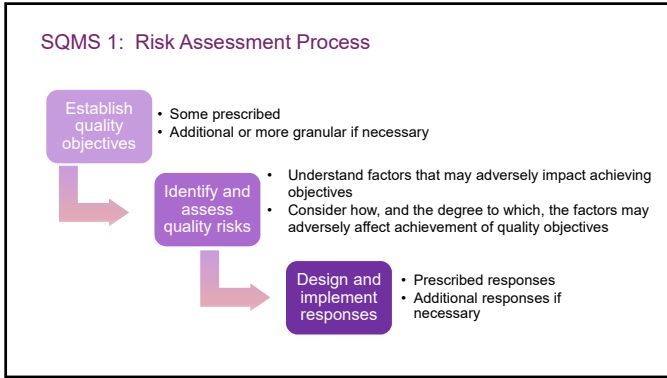
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Exposure drafts,  
Strategy and workplan

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**Proposed Group Audit Standard**

What's proposed?	<ul style="list-style-type: none"> <li>• Supersedes AU-C Section 600</li> <li>• Amends various other sections</li> </ul>
Key aspects include	<ul style="list-style-type: none"> <li>• Clarifies that all applicable AU-C sections need to be applied in a group audit</li> <li>• Introduces a principles-based approach</li> <li>• Emphasizes importance of professional skepticism</li> <li>• Strengthens and clarifies communications between group auditor and component auditor</li> <li>• Establishes a framework for planning and performing a group audit</li> </ul>
Changes in terminology	<ul style="list-style-type: none"> <li>• Replaces <i>group engagement team</i> with <i>group auditor</i></li> <li>• Revises <i>component auditor</i> to indicate they are part of the engagement team</li> <li>• Introduces <i>referred-to auditor</i>, a component auditor that is referenced in the auditor's report</li> </ul>

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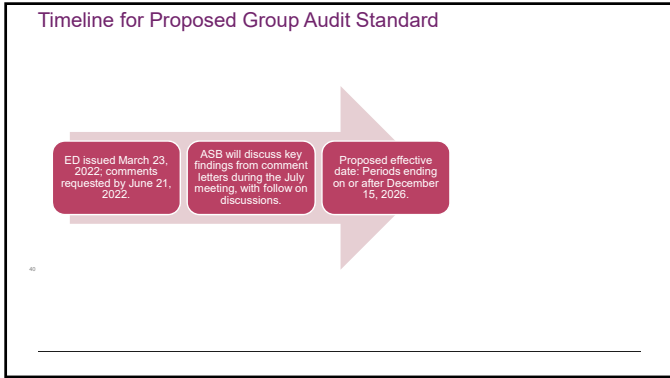
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- ### Additional ASB Topics and Projects Under Consideration
- Attestation standards
  - Technology
  - Sustainability
  - Audit evidence
  - Fraud
  - Going concern
  - Audits of less complex entities
  - Definition of public interest entity

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[cpea@aicpa.org](mailto:cpea@aicpa.org)

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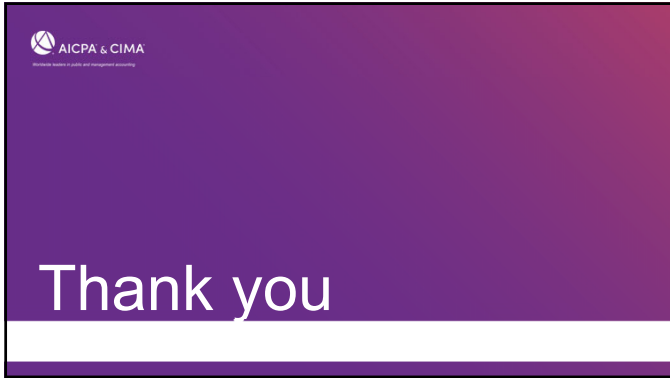
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