

Summary of Differences Between Clarified SASs and Superseded SASs



As of December 2010 (Revised February 2014)

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In an effort to make U.S. generally accepted auditing standards (GAAS) easier to read, understand, and apply, the Auditing Standards Board (ASB) redrafted all of the auditing sections in the Codification of Statements on Auditing Standards to apply the clarity drafting conventions and to converge with International Standards on Auditing (ISA).

The codification of the clarified standards uses section numbering established by SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, and contains "AU-C" section numbers instead of "AU" section numbers. As part of the clarification of the SASs, the AU section numbers as designated by SAS Nos. 1–121 were recodified and "AU-C" was selected as an identifier in order to avoid confusion with references to superseded "AU" sections. Superseded "AU" sections were deleted from AICPA *Professional Standards* in December 2013, by which time substantially all engagements for which the "AU" sections were still effective were expected to be completed.

The following table lists the clarified Statements on Auditing Standards (SASs) in AU-C section order. The table notes which AU section(s) each AU-C section superseded and summarizes the changes from the superseded AU section.

To reflect a more principles-based approach to standards setting, certain requirements that were duplicative of broader requirements within a superseded AU section were moved to application and other explanatory material within the clarified SAS. The ASB believes that this does not change the overall effectiveness of the clarified SAS. Additionally, certain requirements that were in one superseded AU section may have been moved to a different AU-C section. The placement of these requirements does not create a difference between the superseded SASs as a whole and the clarified SASs as a whole.

Summary of Changes

200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards

Supersedes: AU sections 110, 201, 210, 220, and 230 (SAS No. 1, *Codification of Auditing Standards and Procedures*, section 110, *Responsibilities and Functions of the Independent Auditor*, as amended; section 201, *Nature of the General Standards*; section 210, *Training and Proficiency of the Independent Auditor*, as amended; section 220, *Independence*; and section 230, *Due Professional Care in the Performance of Work*, as amended); AU section 120 (SAS No. 102, *Defining Professional Responsibilities in Statements on Auditing Standards*); and AU section 150 (SAS No. 95, *Generally Accepted Auditing Standards*, as amended).

Changes From Superseded AU Sections:

The clarified SAS does not substantially change what is required of the auditor by the superseded AU sections. However, the structure of the AU sections is changed by the clarified SAS, and new terminology is introduced.

The clarified SAS supersedes SAS No. 95, as amended, which contains the general, field work, and reporting standards (the 10 standards). The clarity drafting conventions adopted by the ASB include establishing an objective, or objectives, for each SAS. The clarified SAS establishes the overall objectives of the auditor, which are

- a. to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and
- b. to report on the financial statements, or otherwise as required by the SASs, in accordance with the auditor's findings.

As explained in paragraph A71 of the clarified SAS, each SAS contains an objective, or objectives, that provide a link between the requirements and the overall objectives of the auditor. The SASs, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor.

If an auditor fulfills the overall objective of the auditor and meets applicable ethical requirements, such as the AICPA *Code of Professional Conduct*, the ASB believes that the auditor will have fulfilled the requirements previously stated in the 10 standards.

The clarified SAS introduces the terms *financial reporting framework*, *applicable financial reporting framework*, and *fair-presentation framework*.

210 Terms of Engagement

Supersedes: Paragraphs .05–.10 of AU section 311 (paragraphs 5–10 of SAS No. 108, *Planning and Supervision*, as amended) and paragraphs .03, .05–.10, and .14 of AU section 315 (paragraphs 3, 5–10, and 14 of SAS No. 84, *Communications Between Predecessor and Successor Auditors*, as amended)

Changes From Superseded AU Sections:

Paragraph 6(a) of the clarified SAS requires the auditor to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable. The auditor's responsibility for determining the acceptability of the applicable financial reporting framework, which is necessary in order to express an opinion on the financial statements, has been implicit in GAAS. Thus, this change in requirements is not expected to affect practice, and it is appropriate that this determination be performed in conjunction with accepting the engagement.

Paragraph 6(b) of the clarified SAS requires the auditor to obtain the agreement of management that it acknowledges and understands its responsibility for selecting the appropriate financial reporting framework, establishing and maintaining internal control, and providing access and information to the auditor. Paragraph .08 of superseded AU section 311 requires that the auditor should establish an understanding with management and requires that the understanding should include management's responsibilities. Paragraph .09 of superseded AU section 311 includes management's responsibility for the selection and application of financial reporting, establishing and maintaining internal control, and making all financial records and related information available to the auditor as matters that may be included in the understanding established with the client. Thus, a level of detail that is suggested in superseded AU section 311 is required in the clarified SAS. The ASB believes that it is appropriate

to require that management's responsibilities be explicit in the engagement letter because there is no point in starting an audit if management won't acknowledge its responsibilities.

Paragraph 7 of the clarified SAS requires that if management or those charged with governance of an entity that is not required by law or regulation to have an audit impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements as a whole, the auditor should not accept such a limited engagement as an audit engagement unless the audit is required by law or regulation. Paragraph 8 requires that, unless required by law or regulation to do so, the auditor should not accept the engagement if the auditor has determined that the applicable financial reporting framework is not acceptable or if the agreement referred to in paragraph 6(b) has not been obtained. Superseded GAAS does not contain these requirements. Thus, these changes in requirements affect practice.

Paragraph 13 of the clarified SAS requires the auditor to assess for recurring audits whether circumstances require the terms of the audit engagement to be revised. If the auditor concludes that the terms of the engagement need not be revised, the auditor should remind the entity of the terms of the engagement. This may be accomplished by means of a new engagement letter or a reminder, either written or oral, that the responsibilities in the previous terms of engagement still apply. Paragraph .08 of superseded AU section 311 requires that the auditor should establish an understanding with the client for each engagement, which in practice may not result in a reminder each year for recurring audits. The clarified SAS also requires that the reminder, which may be written or oral, should be documented. These requirements may affect practice, depending on how the superseded standard had been interpreted.

Paragraph 15 of the clarified SAS addresses situations in which the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance. These situations are addressed in Statements on Standards for Accounting and Review Services. Thus, including these requirements in GAAS does not affect practice.

Paragraph 18 of the clarified SAS addresses situations in which law or regulation prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of GAAS. Superseded GAAS requires that in such circumstances, the auditor reword the prescribed form or attach a separate report. The clarified SAS includes the explicit requirement that if the auditor determines that rewording the prescribed form or attaching a separate report would not be permitted or would not mitigate the risk of users misunderstanding the auditor's report, the auditor should not accept the engagement. Thus, this change in requirement may affect practice.

220 Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards

Supersedes: AU section 161 (SAS No. 25, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*)

Changes From Superseded AU Section:

Superseded AU section 161 contains no requirements. The clarified SAS contains requirements and application material that address specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. Quality control systems, policies, and procedures are the responsibility of the audit firm. The clarified SAS specifies quality control procedures at the engagement level that assist the auditor in achieving the objectives of the quality control standards. Because these procedures are required to be established by Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)*, the clarified SAS should not affect practice; however, the clarified SAS strengthens superseded standards by making it easier for auditors to understand and apply those quality control procedures that apply to an audit of financial statements.

The clarified SAS also addresses requirements for supervision in an audit that had been included in paragraphs .28–.32 of superseded AU section 311, which were not included in AU-C section 300, *Planning an Audit*.

230 Audit Documentation

Supersedes: AU section 339 (SAS No. 103, *Audit Documentation*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 339 in any significant respect. Requirements addressing the retention, confidentiality, integrity, accessibility, and retrievability of audit documentation in superseded AU section 339 have been placed in SQCS No. 8.

240 Consideration of Fraud in a Financial Statement Audit

Supersedes: AU section 316 (SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, as amended)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 316 in any significant respect. The definition of *fraud* has been revised to converge with ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, while avoiding unnecessary differences with Public Company Accounting Oversight Board standards. The ASB believes that the definition of fraud, when read in conjunction with the objective of the clarified SAS, does not create differences between the application of superseded AU section 316 and the application of the clarified SAS.

250 Consideration of Laws and Regulations in an Audit of Financial Statements

Supersedes: AU section 317 (SAS No. 54, *Illegal Acts by Clients*)

Changes From Superseded AU Section:

Paragraph 14 of the clarified SAS requires the performance of procedures to identify instances of noncompliance with those laws and regulations that may have a material effect on the financial statements (those laws and regulations described in paragraph 6[b] of the clarified SAS). Specifically, paragraph 14(b) requires the auditor to inspect correspondence, if any, with the relevant licensing or regulatory authorities. This procedure is not required by superseded AU section 317. This change in requirements affects practice.

Paragraph .07 of superseded AU section 317 states that an audit performed in accordance with GAAS provides no assurance that noncompliance with laws and regulations will be detected or that any contingent liabilities that may result will be disclosed. However, paragraph 5 of the clarified SAS states that because of the inherent limitations of an audit, some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS. The concept of "no assurance" is different from the concept described as "inherent limitations of an audit." However, the differing descriptions of these concepts do not affect practice.

The requirement in paragraph .08 of superseded AU section 317 to obtain a written representation from management concerning the absence of noncompliance with laws or regulations has been placed in AU-C section 580, *Written Representations*.

260 The Auditor's Communication With Those Charged With Governance

Supersedes: AU section 380 (SAS No. 114, *The Auditor's Communication With Those Charged With Governance*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 380 in any significant respect. A requirement to communicate matters related to other information included in documents containing audited financial statements has been placed in AU-C section 720, *Other Information Contained in Documents Containing Audited Financial Statements*.

265 Communicating Internal Control Related Matters Identified in an Audit

Supersedes: AU section 325 (SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*)

Changes From Superseded AU Section:

The clarified SAS makes explicit the following requirements that are implied in superseded AU section 325:

- The requirement to determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control.
- The requirement to include specific matters in a written communication stating that no material weaknesses were identified during the audit that are similar to those in the written communication of significant deficiencies and material weaknesses. Superseded AU section 325 implied that these matters be included by presenting them in the second example of exhibit A, "Illustrative Written Communications," of superseded AU section 325, which is an illustrative written communication indicating that no material weaknesses were identified.

The clarified SAS adds the following requirements that were not included in superseded AU section 325:

- The requirement to communicate, in writing or orally, only to management other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention. The ASB does not view this new requirement as a difference between superseded AU section 325 and the clarified SAS because auditor judgment is the sole determinant regarding whether a deficiency, other than a material weakness or a significant deficiency, is of sufficient importance to communicate to management. Likewise, superseded AU section 325 did not preclude the auditor from communicating other internal control matters to management if the auditor believes it is important to do so.
- The requirement to include in the written communication an explanation of the potential effects of the significant deficiencies and material weaknesses identified. The ASB believes management and those charged with governance need this information to enable them to take appropriate remedial action. Further, the ASB does not believe this requires additional effort by the auditor because the potential effects would have been considered as part of the evaluation of the severity of the deficiency. The clarified SAS includes guidance addressing that the potential effects need not be quantified.

300 Planning an Audit

Supersedes: Paragraphs .01–.04 and .11–.33 of AU section 311 (SAS No. 108, *Planning and Supervision*)

Changes from Superseded AU Section:

The clarified SAS does not change or expand superseded requirements in superseded AU section 311 in any significant respect. Requirements included in paragraphs .05–.10 of superseded AU section 311, addressing the auditor's responsibilities about the early appointment of the independent auditor and establishing the terms of the engagement, have been included in AU-C section 210, *Terms of Engagement*. Requirements included in paragraphs .28–.32 of superseded AU section 311, addressing supervision in an audit, have been included in AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*. The placement of these requirements does not create a difference between the superseded SASs as a whole and the clarified SASs as a whole.

315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

Supersedes: AU section 314 (SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded requirements in superseded AU section 314 in any significant respect. The requirement included in paragraph .19 of superseded AU section 314 for the auditor to perform the audit with professional skepticism has been included in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*. The requirement included in paragraph .45 of superseded AU section

311 for the auditor to consider whether the entity has disclosed a particular matter appropriately has been included in AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*. The placement of these requirements does not create a difference between superseded SASs as a whole and the clarified SASs as a whole.

320 Materiality in Planning and Performing an Audit

Supersedes: With the clarified SAS *Evaluation of Misstatements Identified During the Audit*, supersedes AU section 312 (SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded requirements in superseded AU section 312 in any significant respect.

Superseded AU section 312 addresses audit risk, materiality, and the evaluation of misstatements identified during the audit. To make the standard clearer and consistent with ISA 320, *Materiality in Planning and Performing an Audit*, and ISA 450, *Evaluation of Misstatements Identified during the Audit*, superseded AU section 312 has been separated into two standards. This clarified SAS addresses the use of materiality in planning and performing the audit. AU-C section 450, *Evaluation of Misstatements Identified During the Audit*, addresses the evaluation of misstatements identified during the audit.

In addition, the definition of audit risk and its components are now defined in AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*. Paragraphs .62–.67 of superseded AU section 312 address the auditor's responsibilities to evaluate the overall effect of audit findings on the auditor's report. These requirements have been included in AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*. The placement of these requirements does not create a difference between superseded SASs as a whole and the clarified SASs as a whole.

330 Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained

Supersedes: AU section 318 (SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded requirements in superseded AU section 318 in any significant respect.

402 Audit Considerations Relating to an Entity Using a Service Organization

Supersedes: AU section 324 (SAS No. 70, *Service Organizations*)

Changes From Superseded AU Section:

The clarified SAS contains guidance only for user auditors. Guidance for service auditors is contained in Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*.

The clarified SAS changes superseded AU section 324 in the following ways:

- A user organization is now known as a user *entity*.
- A user auditor is permitted to make reference to the work of a service auditor in the user auditor's report to explain a modification of the user auditor's opinion. In such circumstances, the user auditor's report is required to indicate that such reference does not diminish the user auditor's responsibility for that opinion. (As in superseded AU section 324, the user auditor is prohibited from making reference to the work of a service auditor in a user auditor's report containing an unmodified opinion.)
- A user auditor is required to inquire of management of the user entity about whether the service organization has reported to the user entity any fraud, noncompliance with laws and regulations, or uncorrected misstatements. If so, the user auditor is required to evaluate how such matters affect the nature, timing, and extent of the user auditor's further audit procedures.
- In determining the sufficiency and appropriateness of the audit evidence provided by a service auditor's report, the user auditor should be satisfied regarding the adequacy of the standards under which the service auditor's report was issued.

450 Evaluation of Misstatements Identified During the Audit

See the previous section on AU-C section 320, *Materiality in Planning and Performing an Audit*.

500 Audit Evidence

Supersedes: AU section 326 (SAS No. 106, *Audit Evidence*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 326 in any significant respect. The requirements in paragraphs .14–.19 of superseded AU section 326, addressing the auditor’s use of assertions in obtaining audit evidence, have been placed in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

501 Audit Evidence—Specific Considerations for Selected Items

Supersedes: AU section 331 (SAS No. 1, *Codification of Auditing Standards and Procedures*, section 331, *Inventories*); AU section 332 (SAS No. 92, *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*); and AU sections 337, 337A, and 337C (SAS No. 12, *Inquiry of a Client’s Lawyer Concerning Litigation, Claims, and Assessment*)

Rescinds: AU section 337B (SAS No. 12) and AU section 901 (SAS No. 1, section 901, *Public Warehouses—Controls and Auditing Procedures for Goods Held*)

Changes From Superseded AU Section:

The clarified SAS combines the requirements and guidance from superseded AU section 331, superseded AU section 332, and superseded AU section 337.

Many of the requirements of superseded AU section 332 are essentially the same as requirements in other clarified standards, primarily the risk assessment standards* and AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*; therefore, the ASB concluded that the application of those requirements in the other clarified standards to the subject matter addressed by superseded AU section 332 is most appropriately addressed as interpretative guidance in the AICPA Audit Guide *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*. Consideration of these requirements and related application guidance will be a specific focus in updating the audit guide.

Requirements and guidance addressing auditing investments accounted for using the equity method have been excluded from this clarified SAS because the auditing of equity investees is addressed more broadly by AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Paragraphs 4–10, and the related application material, of this clarified SAS address those requirements (primarily addressing auditing the valuation assertion) that have been retained from superseded AU section 332 in this clarified SAS.

Finally, paragraph .06 of superseded AU section 337 states, in part, “the auditor should request the client’s management to send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments.” In contrast, the clarified SAS takes a more principle-based approach and, in paragraph 18, requires the auditor to seek direct communication with the entity’s external legal counsel (through a letter of inquiry) if the auditor assesses a risk of material misstatement regarding litigation or claims, or when audit procedures performed indicate that material litigation or claims may exist.

* The suite of SASs referred to collectively as the “risk assessment SASs” are (1) *Audit Evidence (Redrafted)*, (2) *Materiality in Planning and Performing an Audit*, (3) *Evaluation of Misstatements Identified During an Audit*, (4) *Planning an Audit*, (5) *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (Redrafted)*, and (6) *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained (Redrafted)*.

505 External Confirmations

Supersedes: AU section 330 (SAS No. 67, *The Confirmation Process*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 330 in any significant respect.

The presumptively mandatory requirement in paragraph .34 of superseded AU section 330 to confirm accounts receivable has been placed in AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. The requirement was placed in AU-C section 330 because it is part of the process of determining the appropriate audit procedures to perform. This clarified SAS presumes that the auditor has already determined an external confirmation is the appropriate audit procedure.

Paragraphs 8–9 of this clarified SAS address the responsibilities of the auditor when management refuses to allow the auditor to send a confirmation request. These responsibilities include communicating with those charged with governance if the auditor concludes that management's refusal is unreasonable or if the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures. These procedures are not required by superseded AU section 330.

The ASB has added application material to this clarified SAS regarding the use of oral responses to confirmation requests as audit evidence. Paragraphs A22–A23 clarify that the receipt of an oral response to a confirmation request does not meet the definition of an external confirmation. These paragraphs provide guidance on how the response may be considered part of alternative procedures performed in order to obtain sufficient appropriate audit evidence.

510 Opening Balances—Initial Audit Engagements, Including Reaudit Engagements

Supersedes: Paragraphs .01–.02, .04, .11–.13, and .15–.23 of AU section 315 (SAS No. 84, *Communications Between Predecessor and Successor Auditors*, as amended)

Changes From Superseded AU Section:

The clarified SAS incorporates guidance from ISA 510, *Initial Audit Engagements—Opening Balances*, which requires the auditor to obtain sufficient appropriate audit evidence about whether

- a. opening balances contain misstatements that materially affect the current period's financial statements and
- b. accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

The clarified SAS strengthens superseded standards by making clear, in paragraph 8, that reviewing a predecessor auditor's audit documentation cannot be the only procedure performed to obtain sufficient appropriate audit evidence regarding opening balances. The clarified SAS clarifies that initial audit engagements include reaudits, and it eliminates from superseded AU section 315 requirements and guidance directed to reaudits that are repetitive with other SASs.

520 Analytical Procedures

Supersedes: AU section 329 (SAS No. 56, *Analytical Procedures*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand the requirements of superseded AU section 329 in any significant respect. The use of analytical procedures as a risk assessment procedure performed in the planning stage of the audit, addressed in superseded AU section 329, has been placed in paragraph 6 and related application guidance of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

530 Audit Sampling

Supersedes: AU section 350 (SAS No. 39, *Audit Sampling*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 350 in any significant respect.

540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

Supersedes: AU section 328 (SAS No. 101, *Auditing Fair Value Measurements and Disclosures*) and AU section 342 (SAS No. 57, *Auditing Accounting Estimates*)

Changes From Superseded AU Section:

The clarified SAS combines the requirements and guidance from superseded AU section 328 and superseded AU section 342, and it does not change or expand those superseded AU sections in any significant respect.

550 Related Parties

Supersedes: AU section 334 (SAS No. 45, *Omnibus Statement on Auditing Standards—1983, section 334, Related Parties*)

Changes From Superseded AU Section:

Superseded AU section 334 is premised on the applicability of the related party requirements in Financial Accounting Standards Board (FASB) Statement No. 57, *Related Party Disclosures*, to the financial statements being audited. That is, superseded AU section 334 is focused on auditing the amounts and disclosures pursuant to accounting principles generally accepted in the United States (U.S. GAAP), and it is centered on the provisions of FASB Statement No. 57. In contrast, the clarified SAS is framework neutral, encompassing financial reporting frameworks in addition to U.S. GAAP, such as International Financial Reporting Standards as promulgated by the International Accounting Standards Board, as well as special purpose frameworks described in AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*. The objectives, requirements, and definitions in this clarified SAS are applicable irrespective of whether the applicable financial reporting framework establishes requirements for related party disclosures.

560 Subsequent Events and Subsequently Discovered Facts

Supersedes: AU sections 530, 560, and 561 (SAS No. 1, *Codification of Auditing Standards and Procedures, section 530, Dating of the Independent Auditor's Report, as amended; section 560, Subsequent Events, as amended; section 561, Subsequent Discovery of Fact Existing at the Date of the Auditor's Report, as amended*) and paragraphs .71–.73 of AU section 508 (SAS No. 58, *Reports on Audited Financial Statements, as amended*)

Changes From Superseded AU Sections:

The clarified SAS combines the requirements and guidance from superseded AU section 530, superseded AU section 560, superseded AU section 561, and paragraphs .71–.73 of superseded AU section 508. The clarified SAS does not change or expand these superseded AU sections in any significant respect.

The accounting guidance related to subsequent events included in superseded AU sections has been removed from the auditing literature. Retaining accounting guidance in the auditing literature is no longer necessary because FASB *Accounting Standards Codification*[™] has included that guidance, and it is inconsistent with the ASB's decision to draft auditing standards that are neutral regarding the financial reporting framework used for preparing the financial statements.

570 The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern

Supersedes: AU section 341 (SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, as amended*)

Changes From Superseded AU Section:

Paragraph 14 of the clarified SAS requires the auditor to obtain written representations from management if conditions or events have been identified that indicate there could be substantial doubt about the entity's ability to continue as a going concern. These representations are based on the representation required by paragraph 16(e) of ISA 570, *Going Concern*, and the illustrative going concern representation in appendix B, "Additional Illustrative Representations," of superseded AU section 333, *Management Representations*. Neither superseded AU section 341 nor superseded AU section 333 requires such representations; however, this requirement is not expected to affect practice based on appendix B of superseded AU section 333.

Interpretation No. 1, "Eliminating a Going-Concern Explanatory Paragraph From a Reissued Report," of superseded AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, which addresses the auditor's responsibilities when the auditor agrees to reissue an audit report that contained a going-concern explanatory paragraph, has been incorporated into the clarified SAS. Paragraph 21 of the clarified SAS requires the auditor to reassess the going-concern status of the entity by performing certain procedures when determining whether to eliminate the going-concern emphasis-of-matter paragraph. The incorporation of this interpretation into the clarified SAS does not change practice.

NOTE: *The clarified SAS redrafted superseded AU section 341 so that it is consistent with the format of the clarified SASs that have been issued. The ASB decided to delay convergence of the clarified SAS with ISA 570, Going Concern, however, pending the FASB's anticipated development of accounting guidance addressing going concern.*

580 Written Representations

Supersedes: AU section 333 (SAS No. 85, *Management Representations*, as amended)

Changes From Superseded AU Section:

The clarified SAS does not change or expand requirements in superseded AU section 333 in any significant respect.

585 Consideration of Omitted Procedures After the Report Release Date

Supersedes: AU section 390 (SAS No. 46, *Consideration of Omitted Procedures After the Report Date*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand requirements in superseded AU section 390 in any significant respect.

600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

Supersedes: AU section 543 (SAS No. 1, section 543, *Part of Audit Performed by Other Independent Auditors*)

Changes From Superseded AU Section:

The clarified SAS is significantly broader in scope than superseded AU section 543. The focus of superseded AU section 543 is on how to conduct an audit that involves other auditors. The focus of clarified SAS is on how to conduct an effective audit of group financial statements (see the subsequent section "Definitions"). The focus of any auditing standard should be on the effectiveness with which an audit of any set of financial statements is carried out, thereby increasing the credibility of the auditor's report.

The clarified SAS includes requirements of GAAS established in other SASs that are applied in audits of group financial statements. Superseded AU section 543 was written in 1972 and, thus, does not take into consideration the risk assessment standards. The clarified SAS strengthens superseded standards by making it easier for auditors to understand and apply the requirements of GAAS, such as those contained in the risk assessment standards, in the context of an audit of group financial statements.

A summary of the key differences, as well as a description of a number of terminology additions and changes, follows.

Differences in Focus and Approach Between Superseded AU Section 543 and the Clarified SAS

Because the clarified SAS is based on ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, the scope of the clarified SAS, including its objective, requirements, and guidance, has been significantly expanded from the scope of superseded AU section 543. The clarified SAS specifically articulates the procedures necessary for the group engagement team to perform in order to be involved with component auditors to the extent necessary for an effective

audit and, compared with superseded AU section 543, better articulates the degree of involvement required when reference is made to component auditors in the auditor's report.

The requirements of the clarified SAS address the following:

- Acceptance and continuance considerations
- The determination whether to make reference to a component auditor in the auditor's report on the group financial statements
- The group engagement team's process to assess risk
- The determination of materiality to be used to audit the group financial statements
- The determination of materiality to be used to audit components
- The selection of components and account balances for audit testing
- Communications between the group engagement team and component auditors
- Assessing the adequacy and appropriateness of audit evidence by the group engagement team in forming an opinion on the financial statements

In situations when the group engagement partner does not make reference to a component auditor in the auditor's report on the group financial statements, all of the requirements of the clarified SAS apply, when relevant in the context of the specific group audit engagement. Highlights of the requirements, particularly those that represent a change from superseded standards, follow.

In situations when the group engagement partner decides to make reference to a component auditor in the audit report on the group financial statements, certain of the requirements of the clarified SAS would not apply. Note that while the clarified SAS is based on ISA 600, ISA 600 does not permit reference to a component auditor in the auditor's report on the group financial statements.

Definitions (Paragraph 10 of the Clarified SAS)

As previously mentioned, the clarified SAS includes several new terms as well as certain revised terms from superseded AU section 543. The clarified SAS introduces the term *group*, which is defined as "all the components whose financial information is included in the group financial statements. A group always has more than one component." *Component* is defined as "an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements." *Group financial statements* are defined as "financial statements that include the financial information of more than one component."

The term *principal auditor*, which is used in superseded AU section 543, is not used in the clarified SAS and has been replaced by the terms *group engagement partner*, *group engagement team*, or *auditor of the group financial statements*. The definition of *group engagement partner* is aligned with the definition of *engagement partner* provided in the clarified SAS *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* as follows: "The partner or other person in the firm who is responsible for the group audit engagement and its performance and for the auditor's report on the group financial statements that is issued on behalf of the firm."

Responsibilities of the Group Engagement Partner

The group engagement partner is the individual responsible for (1) the direction, supervision, and performance of the group audit engagement in compliance with professional standards and regulatory and legal requirements and (2) determining whether the auditor's report that is issued is appropriate in the circumstances. However, the group engagement partner may be assisted in fulfilling his or her responsibilities under the clarified SAS by the group engagement team, or as appropriate in the circumstances, by the firm. To help distinguish when such assistance is permitted, the clarified SAS uses the terms *group engagement partner*, *group engagement team*, and *auditor of the group financial statements*. Requirements to be undertaken by the group engagement partner are addressed to the group engagement partner. When the group engagement team may assist the group engagement partner in fulfilling a requirement, the requirement is addressed to the group engagement team. When it may be appropriate in the circumstances for the firm to fulfill a requirement, the requirement is addressed to the auditor of the group financial statements.

Group engagement team is defined as "partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements." Note that auditors who do not meet the definition of a member of the group engagement team are considered to be component auditors. Thus, a component auditor may work for a network firm of the group engagement partner's firm or may even work for a different office of the same firm.

Acceptance and Continuance

An overall difference between superseded AU section 543 and the clarified SAS is the change in focus when determining whether to accept or continue the engagement. Superseded AU section 543 bases the determination on whether the auditor will be able to sufficiently participate in the group audit in order to be the principal auditor. The clarified SAS bases that determination on whether the auditor believes he or she will be able to obtain sufficient appropriate audit evidence over the group financial statements, including whether the group engagement team will have appropriate access to information.

Note that this approach means a change in the mindset of the group engagement partner from considering the group engagement team's coverage of the principal amounts and reliance on other (component) auditors to considering the sufficiency of the group engagement team's involvement in the performance of the audit, including involvement in the work of the component auditors.

Making Reference

AU-C section 600

- explicitly permits making reference to the audit of a component auditor in the auditor's report on the group financial statements when the component's financial statements are prepared using a different financial reporting framework than that used for the group financial statements, if certain conditions are met.
- requires, when reference is made to a component auditor's report on financial statements prepared using a different financial reporting framework, the auditor's report on the group financial statements to disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group.
- explicitly precludes making reference to the audit of a component auditor in the auditor's report on the group financial statements unless the component auditor has performed an audit that meets the relevant requirements of GAAS, and provides guidance regarding that determination.
- requires that when the auditor of the group financial statements is making reference to the audit of a component auditor and has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS, the auditor's report on the group financial statements should indicate the set of auditing standards used by the component auditor and that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS.

Link to Risk Assessment Standards

The clarified SAS, in aligning with ISA 600, focuses on the application of the risk assessment standards to the performance of the group audit. The clarified SAS references the clarified risk assessment standards and discusses their specific application in group audit situations.

Involvement With, and Understanding of, Component Auditors

In the clarified SAS, the group engagement team is required to gain an understanding of the component auditor. This understanding includes certain aspects that are already covered by superseded AU section 543, such as competence and independence, as well as additional areas, such as a determination of the extent to which the group engagement team will be able to be involved in the work of the component auditor.

Once an understanding of the component auditor has been gained, the group engagement partner may choose to either

- assume responsibility for, and thus be required to be involved in, the work of component auditors, insofar as that work relates to the expression of an opinion on the group financial statements, or
- not assume responsibility for, and accordingly make reference to, the audit of a component auditor in the auditor's report on the group financial statements.

Involvement in the work performed by a component auditor will involve the group engagement team undertaking the following actions:

- Establishing component materiality to be used by the component auditor.
- Performing risk assessment procedures and participating in the assessment of risks of material misstatement and the planned audit response. These may be performed together with the component auditor or by the group engagement team.

Materiality

Superseded AU section 543 does not provide guidance on the application of materiality in the audit of group financial statements. The clarified SAS requires the group engagement team to determine materiality and performance materiality for the group as a whole, as well as component materiality (that is, the materiality to be used to audit the financial information of a component for purposes of the group audit). Component materiality is determined by the group engagement team regardless of whether the group engagement partner is making reference to the audit of a component auditor. For purposes of the group audit, component materiality is required to be lower than group materiality in order to reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality for the group financial statements as a whole.

Responding to Assessed Risks

Superseded AU section 543 does not discuss in detail the process used by the principal auditor related to assessing the work of the other auditor. Rather, it indicates only that the principal auditor should adopt appropriate measures to assure the coordination of activities with those of the other auditor in order to achieve a proper review of matters affecting the consolidating or combining of accounts in the financial statements.

The clarified SAS builds on the principle underlying that requirement by including requirements and guidance relating to work to be performed on all components for which the group engagement partner is assuming responsibility for the work of the component auditor, whether that work is performed by the group engagement team or component auditors. It includes requirements and guidance specifying the nature, timing, and extent of the group engagement team's involvement in the work of the component auditors, particularly when performing work on significant components.

A *significant component* is defined in the clarified SAS as "a component identified by the group engagement team (i) that is of individual financial significance to the group or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements."

For components that are financially significant, an audit of the component's financial information is performed. For components considered significant due to their likelihood of including significant risks of material misstatements, an audit or other audit procedures are performed.

For components that are not significant, the group engagement team performs analytical procedures at the group level.

The clarified SAS also includes requirements and guidance related to the groupwide internal controls, the consolidation process, and subsequent events.

Communication With Others and Documentation

The clarified SAS requires the group engagement team to communicate specific items to the component auditor and further requires the group engagement team to request that the component auditor also communicate with the group engagement team about certain matters. The clarified SAS also includes requirements for specific items to be communicated to group management or those charged with governance of the group, or both.

The clarified SAS also includes explicit documentation requirements, including an analysis of the group's components indicating the significant components and the type of work performed on the components.

Other Changes

The clarified SAS requires that in order for reference to the component auditor to be made in the auditor's report on the group financial statements, the component financial statements need to be prepared using the same financial reporting framework as the group financial statements and the component auditor has performed an audit on the financial statements of the component in accordance with GAAS or, when required by law or regulation, with auditing standards promulgated by the Public Company Accounting Oversight Board. The ASB believes that this requirement makes explicit what is implicit in superseded AU section 543.

610 Using the Work of Internal Auditors

Supersedes: AU section 322 (SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*)

Changes From Superseded AU Section:

The clarified SAS introduces the concept of a *systematic and disciplined approach*, which is not included in superseded AU section 322. The clarified SAS requires, among other things, as a prerequisite to being able to use the work of the internal audit function, that the external auditor evaluate the application by the internal audit function of a *systematic and disciplined approach*, including quality control. The application guidance and other explanatory material provides guidance with regard to the evaluation of the application of a systematic and disciplined approach by the internal audit function. The ASB believes that relative to superseded AU section 322, this requirement represents an additional and explicit evaluation that the external auditor is required to determine whether the work of internal auditors can be used in obtaining audit evidence.

620 Using the Work of an Auditor's Specialist

Supersedes: AU section 336 (SAS No. 73, *Using the Work of a Specialist*)

Changes From Superseded AU Section:

Superseded AU section 336 addresses the use of the auditor's specialist and the use of management's specialist. The requirements and guidance addressing the use of management's specialist have been included in AU-C section 500, *Audit Evidence*, under the view that audit evidence produced by management's experts (internal or external) needs to be evaluated by the auditor for relevance and reliability like any other audit evidence. The placement of these requirements does not create a difference between superseded SASs as a whole and the clarified SASs as a whole.

Superseded AU section 336 specifically scopes out from the standard use of specialists employed by the firm who participate in the audit. In contrast, the clarified SAS encompasses in-firm specialists. The ASB believes that this change in the scope of the standard affects practice because it creates incremental documentation requirements.

700 Forming an Opinion and Reporting on Financial Statements

Supersedes: AU section 410 (SAS No. 1, *Codification of Auditing Standards and Procedures*, section 410, *Adherence to Generally Accepted Accounting Principles*, as amended) and paragraphs .01–.02 of AU section 530 (paragraphs 1–2 of SAS No. 1, section 530, *Dating of the Independent Auditor's Report*, as amended); and with the clarified SAS *Modifications to the Opinion in the Independent Auditor's Report* and the clarified SAS *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, supersedes paragraphs .01–.11, .14–.15, .19–.32, .35–.52, .58–.70, and .74–.76 of AU section 508 (paragraphs 1–11, 14–15, 19–32, 35–52, 58–70, and 74–76 of SAS No. 58, *Reports on Audited Financial Statements*)

Changes From Superseded AU Sections:

The clarified SAS includes guidance from superseded AU section 508, superseded AU section 530, and superseded AU section 410 (along with some of the related interpretations). The clarified SAS also includes requirements and application material addressing comparative financial statements.

Paragraph .08 of superseded AU section 508 requires a statement in the auditor's report that the financial statements are the responsibility of the company's management. Paragraph 25 of the clarified SAS proposes a requirement to describe management's responsibility for the preparation and fair presentation of the financial statements in more detail than what was required in superseded AU section 508. The description includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, and that this responsibility 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.

The clarified SAS proposes the use of headings throughout the auditor's report to clearly distinguish each section of the report.

705 Modifications to the Opinion in the Independent Auditor's Report

Supersedes: See Section 700, *Forming an Opinion and Reporting on Financial Statements*

Changes From Superseded AU Sections:

The clarified SAS includes guidance from superseded AU section 508 and superseded AU section 431, *Adequacy of Disclosure in Financial Statements*. No significant changes exist from superseded standards. The clarified SAS does not change or expand superseded standards in any significant respect.

706 Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report

Supersedes: See Section 700, *Forming an Opinion and Reporting on Financial Statements*

Changes From Superseded AU Sections:

The clarified SAS includes guidance from superseded AU section 508 and superseded AU section 532, *Restricting the Use of an Auditor's Report*.

Paragraph .11 of superseded AU section 508 indicates that certain circumstances, although not those affecting the auditor's unqualified opinion, may require that the auditor add an explanatory paragraph (or other explanatory language) to the standard report. For example, auditors are required to include an explanatory paragraph when the auditor has concluded that there is substantial doubt about the entity's ability to continue as a going concern. In addition, the auditor may add an explanatory paragraph to emphasize a matter regarding the financial statements. As described in paragraph .19 of superseded AU section 508, emphasis paragraphs are never required; they may be added solely at the auditor's discretion.

The clarified SAS introduces the terms *emphasis-of-matter* and *other-matter paragraphs*. The clarified SAS describes an emphasis-of-matter as a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements. The clarified SAS describes an other-matter paragraph as a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report.

Under the clarified SAS, an emphasis-of-matter paragraph would refer to any paragraph added to the auditor's report that relates to a matter that is appropriately presented or disclosed in the financial statements. Some of these paragraphs would be required by certain SASs (see exhibit B, "List of Statements on Auditing Standards Containing Requirements for Emphasis-of-Matter Paragraphs," of the clarified SAS), whereas others would be added at the discretion of the auditor, consistent with practice under the superseded AU sections. However, all such paragraphs would be considered emphasis-of-matter paragraphs because they are intended to draw users' attention to a particular matter. Accordingly, the concept of an "explanatory paragraph" is no longer to be included in U.S. GAAS. Instead, additional communications in the auditor's report are labeled as either "emphasis-of-matter" or "other-matter" paragraphs.

Footnote 9 of paragraph .11 of superseded AU section 508 states that unless otherwise required by the provisions of that section, an explanatory paragraph may precede or follow the opinion paragraph in the auditor's report. The clarified SAS requires an emphasis-of-matter or other-matter paragraph to always follow the opinion paragraph and be included in a separate section of the auditor's report under the section heading "Emphasis of Matter" or "Other Matter."

708 Consistency of Financial Statements

Supersedes: AU section 420 (SAS No. 1, *Codification of Auditing Standards and Procedures*, section 420, *Consistency of Application of Generally Accepted Accounting Principles*, as amended)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded standards in any significant respect except as follows:

- Paragraph .17 of superseded AU section 420 states that changes and material reclassifications made in previously issued financial statements to enhance comparability with current financial statements ordinarily would not need to be referred to in the independent auditor's report. Paragraph 17 of the clarified SAS requires the auditor to evaluate a material change in financial statement classification and the related disclosure to determine whether such a change is also either

a change in accounting principle or an adjustment to correct a material misstatement in previously issued financial statements. If so, the requirements in the clarified SAS apply.

- The clarified SAS recognizes that the applicable financial reporting framework usually sets forth the method of accounting for accounting changes and, therefore, the references to accounting guidance previously included in superseded AU section 420 have not been included in the clarified SAS. To reflect a more principles-based approach to standard setting, certain requirements that are duplicative of broader requirements in superseded AU section 420 have been moved to application and other explanatory material. In the ASB's view, this has not changed the overall effectiveness of the clarified SAS.

720 Other Information in Documents Containing Audited Financial Statements

Moved From: AU section 550 (SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*)

SAS No. 118 was issued in the clarity format, effective for audits of financial statements for periods beginning on or after December 15, 2010.

SAS No. 118 supersedes SAS No. 8, *Other Information in Documents Containing Audited Financial Statements*, as amended. Along with SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*, SAS No. 118 also supersedes SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as amended. SAS No. 118

- eliminates the distinction between other information that is included in an auditor-submitted document that contains the client's basic financial statements and the auditor's report thereon and other information that is in a client-prepared document.
- requires that the auditor read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.
- establishes performance and reporting requirements when the auditor identifies a material inconsistency with other information and the financial statements
- establishes performance requirements when the auditor becomes aware of an apparent material misstatement of fact in the other information.

725 Supplementary Information in Relation to the Financial Statements as a Whole

Moved From: AU section 551 (SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*)

SAS No. 119 was issued in the clarity format, effective for audits of financial statements for periods beginning on or after December 15, 2010.

SAS No. 119 with SAS No. 118, *Other Information in Documents Containing Audited Financial Statements* supersedes SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as amended. SAS No. 119

- establishes preconditions in order to opine on whether supplementary information is fairly stated in relation to the financial statements as a whole.
- establishes performance requirements in order to opine on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.
- establishes reporting requirements when the entity presents the supplementary information with the financial statements and when the audited financial statements are not presented with the supplementary information.
- precludes the auditor from expressing an opinion on supplementary information when the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion and the auditor has been engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

730 Required Supplementary Information

Moved From: AU section 558 (SAS No. 120, *Required Supplementary Information*)

SAS No. 120 was issued in the clarity format, effective for audits of financial statements for periods beginning on or after December 15, 2010.

SAS No. 120 supersedes portions of SAS No. 52, *Omnibus Statement on Auditing Standards—1987* and SAS No. 98, *Omnibus Statement on Auditing Standards—2002*. SAS No. 120

- defines *required supplementary information* and *designated accounting standard setter*.
- establishes the auditor's objectives when a designated accounting standard setter requires information to accompany an entity's basic financial statements.
- requires auditor to include language in the auditor's report on the financial statements when the auditor is unable to complete the required procedures, and to consider whether management contributed to the auditor's inability to complete the procedures.
- requires the auditor to include an explanatory paragraph in the auditor's report on the financial statements in all circumstances that refers to the required supplementary information.
- establishes reporting requirements applicable when
 - the entity has presented all or some of the required supplementary information.
 - the entity has omitted all of the required supplementary information.

800 Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks

Supersedes: AU section 544, *Lack of Conformity With Generally Accepted Accounting Principles*, as amended; SAS No. 62, *Special Reports*, as amended, except paragraphs 19–21

Changes From Superseded AU Section:

The clarified SAS addresses special considerations in the application of the superseded AU sections to an audit of financial statements prepared in accordance with a special purpose framework. Special purpose frameworks are limited to cash, tax, regulatory, contractual, or other bases of accounting. An other basis of accounting is a basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements. The cash, tax, and regulatory bases of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA). The term OCBOA was replaced with the term *special purpose framework*.

The clarified SAS requires

- the auditor to obtain an understanding of (a) the purpose for which the financial statements are prepared, (b) the intended users, and (c) the steps taken by management to determine that the special purpose framework is acceptable in the circumstances.
- the auditor to obtain the agreement of management that it acknowledges and understands its responsibility to include all informative disclosures that are appropriate for the special purpose framework used to prepare the financial statements, including, but not limited to, additional disclosures beyond those required by the applicable financial reporting framework that may be necessary to achieve fair presentation. The auditor is required to evaluate whether such disclosures are necessary.
- in the case of special purpose financial statements prepared in accordance with a contractual basis of accounting, the auditor to obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements and to evaluate whether the financial statements adequately describe such interpretations.
- when management has a choice of financial reporting frameworks in the preparation of the financial statements, the explanation of management's responsibility for the financial statements in the auditor's report to make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
- in the case of financial statements prepared in accordance with a regulatory or contractual basis of accounting, the auditor's report to describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information.
- the auditor's report to include an emphasis-of-matter paragraph under an appropriate heading that, among other things, states that the special purpose framework is a basis of accounting other than GAAP. As previously indicated, the term OCBOA is no longer used in GAAS.
- the auditor's report to include specific elements if the auditor is required by law or regulation to use a specific layout, form, or wording of the auditor's report.

Supersedes: Paragraphs 33–34 of SAS No. 58, *Reports on Audited Financial Statements*, and paragraphs 11–18 of SAS No. 62, *Special Reports*

Changes From Superseded AU Sections:

The clarified SAS addresses special considerations in the application of GAAS to an audit of a single financial statement or of a specific element, account, or item of a financial statement. It does not apply to the report of a component auditor issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements.

The clarified SAS

- explains that a single financial statement and a specific element include the related notes, which ordinarily comprise a summary of significant accounting policies and other relevant explanatory information.
- requires the auditor, if the auditor is not also engaged to audit the entity's complete set of financial statements, to determine whether the audit of a single financial statement or a specific element is practicable and to determine whether the auditor will be able to perform procedures on interrelated items. In the case of an audit of a specific element that is, or is based upon, the entity's stockholders' equity or net income (or the equivalents thereto), the clarified SAS requires the auditor to perform procedures necessary to obtain sufficient appropriate audit evidence about financial position, or financial position and results of operations, respectively.
- requires the auditor to obtain an understanding of (a) the purpose for which the single financial statement or specific element is prepared, (b) the intended users, and (c) the steps taken by management to determine that the application of the applicable financial reporting framework is acceptable in the circumstances.
- requires the auditor to determine the acceptability of the financial reporting framework, including whether its application will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed and the effect of material transactions and events on such information.
- requires the auditor, if the auditor undertakes an engagement to audit a single financial statement or a specific element in conjunction with an engagement to audit the complete set of financial statements, to issue a separate auditor's report and express a separate opinion for each engagement. In addition, the auditor is required to indicate, in the report on a specific element, the date of the auditor's report on the complete set of financial statements and the nature of opinion expressed under an appropriate heading.
- permits, except as otherwise indicated, an audited single financial statement or a specific element to be published together with the audited complete set of financial statements, provided that the presentation of the single financial statement or specific element is sufficiently differentiated from the complete set of financial statements.
- requires the auditor, if the opinion in the auditor's report on the complete set of financial statements is modified, to determine the effect that this may have on the auditor's opinion on a single financial statement or a specific element. In the case of an audit of a specific element, if the modified opinion is relevant to the audit of the specific element, the clarified SAS requires the auditor to
 - express an adverse opinion on the specific element when the modification on the complete set of financial statements arises from a material misstatement.
 - disclaim an opinion on the specific element when the modification on the complete set of financial statements arises from an inability to obtain sufficient appropriate audit evidence.
- permits the auditor, when it is necessary to express an adverse opinion or disclaim an opinion on the complete set of financial statements as a whole but, in the context of a separate audit of a specific element, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, to do so only if
 - that opinion is expressed in an auditor's report that is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion; and
 - the specific element does not constitute a major portion of the complete set of financial statements or the specific element is not, or is not based upon, the entity's stockholders' equity or net income or the equivalent.
- prohibits the auditor from expressing an unmodified opinion on a single financial statement if the auditor expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole.

- requires the auditor, if the auditor's report on the complete set of financial statements includes an emphasis-of-matter or an other-matter paragraph that is relevant to the audit of the single financial statement or specific element, to include a similar emphasis-of-matter paragraph or an other-matter paragraph in the auditor's report on the single financial statement or specific element.
- permits the auditor to report on an incomplete presentation but one that is otherwise in accordance with GAAP by including an emphasis-of-matter paragraph in the auditor's report that states the purpose for which the presentation is prepared, refers to the note that describes the basis of presentation, and indicates that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, or expenses.

806 Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements

Supersedes: Paragraphs .19–.21 of AU section 623 (paragraphs 19–21 of SAS No. 62, *Special Reports*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand paragraphs 19–21 of superseded AU section 623 in any significant respect. To reflect a more principles-based approach to standard setting, certain requirements that are duplicative of broader requirements in paragraphs 19–21 of superseded AU section 623 have been moved to application and other explanatory material. In the ASB's view, this has not changed the overall effectiveness of the clarified SAS.

810 Engagements to Report on Summary Financial Statements

Supersedes: AU section 552 (SAS No. 42, *Reporting on Condensed Financial Statements and Selected Financial Data*)

Changes From Superseded AU Section:

The clarified SAS addresses the auditor's responsibilities when reporting on summary financial statements derived from financial statements audited by that same auditor. Accordingly, an auditor cannot report on summary financial statements unless the auditor has audited the financial statements from which the summary financial statements are derived. The clarified SAS also

- eliminates reporting on selected financial data.
- introduces the notion of criteria for preparing summary financial statements and requires the auditor to determine whether the criteria applied by management in the preparation of the summary financial statements are acceptable.
- requires the auditor to obtain management's agreement that it acknowledges and understands its responsibilities for the summary financial statements, including its responsibility to make the audited financial statements readily available to the intended users of the summary financial statements. Being available upon request is not considered readily available.
- stipulates specific procedures to be performed as the basis for the auditor's opinion on the summary financial statements.
- stipulates specific elements of the auditor's report, including management's responsibility and a description of the auditor's procedures.
- requires the auditor to request management to provide, in the form of a representation letter addressed to the auditor, written representations relating to the summary financial statements.
- requires, when the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion to state that the summary financial statements are consistent, in all material respects, with the audited financial statements from which they have been derived, in accordance with the applied criteria. SAS No. 42 required that the auditor's opinion state whether the information set forth in the summary financial statements is fairly presented, in all material respects, in relation to the complete set of financial statements from which it has been derived.
- requires, when the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor to withdraw from the engagement, when withdrawal is possible under applicable law or regulation. Otherwise, the auditor is required to state in the report that it is inappropriate to express, and the auditor does not express, an opinion on the summary financial statements.

- clarifies the auditor's responsibilities related to subsequent events and subsequently discovered facts when the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements.
- includes specific requirements relating to comparatives, unaudited information presented with summary financial statements, and other information included in a document containing the summary financial statements and related auditor's report.
- addresses the auditor's responsibilities as they relate to the auditor's association with summary financial statements.

905 Alert That Restricts the Use of the Auditor's Written Communication

Supersedes: AU section 532 (SAS No. 87, *Restricting the Use of an Auditor's Report*)

Changes From Superseded AU Section:

The clarified SAS has been revised to more clearly indicate that it applies to auditor's reports and other written communications (hereinafter referred to as "written communications") issued in connection with an engagement conducted in accordance with GAAS.

The clarified SAS establishes an umbrella requirement to include an alert that restricts the use of the auditor's written communication when the subject matter of that communication is based on

- measurement or disclosure criteria that are determined by the auditor to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria;
- measurement or disclosure criteria that are available only to the specified parties; or
- matters identified by the auditor during the course of the audit engagement when the identification of such matters is not the primary objective of the audit engagement (commonly referred to as a by-product report).

The appendix to the clarified SAS identifies paragraphs in other clarified SASs that contain specific requirements to include an alert that restricts the use of the auditor's written communication or that otherwise address the inclusion of such alerts. The alert language, which states that the communication is intended solely for the information and use of the specified parties, is consistent with superseded AU section 532, except when the engagement is also performed in accordance with *Government Auditing Standards*, and the written communication pursuant to that engagement is issued in accordance with AU-C section 260, *Communicating Internal Control Related Matters Identified in an Audit*, AU-C section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*, or AU-C section 935, *Compliance Audits*. In this circumstance, the alert language describes the purpose of the communication and states that the communication is not suitable for any other purpose. No specified parties are identified in this type of alert.

The clarified SAS also modifies the guidance pertaining to single combined reports covering both (a) communications that are required to include an alert restricting its use and (b) communications that are for general use, which do not ordinarily include such an alert. Superseded AU section 532 states that if an auditor issues a single combined report, the use of the single combined report should be restricted to the specified parties. The clarified SAS, however, indicates that the alert that restricts the use of the written communication pertains only to the communications required to include such an alert. Accordingly, the intended use of the communications that are for general use is not affected by this alert.

Superseded AU section 532 requires the auditor to consider informing his or her client that restricted use reports are not intended for distribution to nonspecified parties. The clarified SAS does not include a comparable requirement and makes clear that an auditor is not responsible for controlling, and cannot control, distribution of the auditor's written communication after its release. The alert is designed to avoid misunderstandings related to the use of the written communication, particularly when taken out of the context in which it is intended to be used. An auditor may consider informing the entity or other specified parties that the written communication is not intended for distribution to parties other than those specified in the written communication.

910 Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country

Supersedes: AU sec. 534 (SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries*)

Changes From Superseded AU Section:

Paragraphs .05–.06 and .12 of superseded AU section 534 indicate that the auditor “should consider consulting” with persons having expertise in auditing and accounting standards of the other country. The clarified SAS requires the auditor to obtain an understanding of a relevant financial reporting framework generally accepted in another country and of relevant auditing standards other than U.S. GAAS; however, the ASB believes that the consideration of consulting with persons having expertise in auditing and accounting standards should not be a requirement. Therefore, these previous requirements have been converted to application material.

Paragraph .14 of superseded AU section 534 requires that if financial statements prepared in accordance with a financial reporting framework generally accepted in another country would have more than limited use in the United States, the auditor should report using the U.S. form of report, modified as appropriate (qualified or adverse), because of departures from U.S. GAAP. Superseded AU section 534 further requires that when the financial statements would not have more than limited use in the United States, the auditor’s report may have included, as appropriate, an opinion only with respect to the financial reporting framework generally accepted in the other country (and no opinion relative to U.S. GAAP).

In the clarified SAS, the concept of limited use has been eliminated. In instances when a report that is to be used in the United States was prepared in accordance with a financial reporting framework generally accepted in another country, the clarified SAS requires the auditor to include an emphasis-of-matter paragraph to highlight the foreign financial reporting framework but permits the auditor to express an unqualified opinion.

915 Reports on Application of Requirements of an Applicable Financial Reporting Framework

Supersedes: AU section 625 (SAS No. 50, *Reports on the Application of Accounting Principles*, as amended)

Changes From Superseded AU Section:

The clarified SAS does not change or expand superseded AU section 625 in any significant respect.

The term *financial reporting framework*, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, replaces the term *generally accepted accounting principles*. The term *requirements of an applicable financial reporting framework*, accordingly, replaces the term *application of accounting principles*. These changes in terminology are not intended to create a difference in the application of superseded AU section 625 and this clarified SAS.

Interpretation No. 1, “Requirement to Consult With the Continuing Accountant,” of superseded AU section 9625, *Reports on the Application of Accounting Principles: Auditing Interpretations of Section 625*, uses the term *advisory accountant* rather than the term *reporting accountant* to distinguish that an accountant in this capacity is not engaged to provide a second opinion and is typically engaged to provide accounting and reporting advice on a recurring basis. The interpretation addresses situations in which the advisory accountant may overcome the presumptive requirement to consult with the continuing accountant.

Although the superseded SAS does not use the term *advisory accountant*, this clarified SAS acknowledges that a reporting accountant who is also engaged to provide accounting and reporting advice to a specific entity on a recurring basis is commonly referred to as an *advisory accountant*. This clarified SAS incorporates the auditing interpretation and distinguishes between the reporting accountant and the advisory accountant without broadening the superseded SAS.

920 Letters for Underwriters and Certain Other Requesting Parties

Supersedes: AU section 634 (SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties*, as amended)

Changes From Superseded AU Section:

The clarified SAS does not change or expand requirements in superseded AU section 634 in any significant respect.

925 Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933

Supersedes: AU section 711 (SAS No. 37, *Filings Under Federal Securities Statutes*)

Changes From Superseded AU Section:

The clarified SAS does not change or expand requirements in superseded AU section 711 in any significant respect.

930 Interim Financial Information

Supersedes: AU section 722 (SAS No. 100, *Interim Financial Information*, as amended)

Changes From Superseded AU Section:

The clarified SAS does not change or expand requirements in superseded AU section 722 in any significant respect.

935 Compliance Audits

Moved From: AU section 801 (SAS No. 117, *Compliance Audits*)

SAS No. 117 was issued in the clarity format, effective for compliance audits for fiscal periods ending on or after June 15, 2010.

SAS No. 117 supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental and Recipients of Governmental Financial Assistance*. SAS No. 117 updates SAS No. 74 to reflect changes in the compliance audit environment and incorporates the risk assessment standards. It requires the auditor to adapt and apply GAAS to a compliance audit and provides guidance on how to do so. It identifies the superseded AU sections that are not applicable to a compliance audit (*Note:* updated to AU-C sections when former AU section 801 was moved to AU-C section 935), defines terms related to compliance audits and used in the clarified SAS, and identifies the elements to be included in an auditor's report on a compliance audit.

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