

AU Section 120

Defining Professional Requirements in Statements on Auditing Standards

Source: SAS No. 102.

Effective December 2005.

Introduction

.01 This section sets forth the meaning of certain terms used in Statements on Auditing Standards (SASs) issued by the Auditing Standards Board in describing the professional requirements imposed on auditors.

Professional Requirements

.02 SASs contain professional requirements together with related guidance in the form of explanatory material. Auditors have a responsibility to consider the entire text of a SAS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SASs.

.03 Not every paragraph of a SAS carries a professional requirement that the auditor is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the SASs.

.04 SASs use two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors, as follows:

- *Unconditional requirements.* The auditor is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. SASs use the words *must* or *is required* to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The auditor is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, the auditor may depart from a presumptively mandatory requirement provided the auditor documents his or her justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SASs use the word *should* to indicate a presumptively mandatory requirement.

If a SAS provides that a procedure or action is one that the auditor "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional requirements of a SAS are to be understood and applied in the context of the explanatory material that provides guidance for their application. Section 339, *Audit Documentation*, establishes standards and provides guidance on the form, content, and extent of audit documentation.

Explanatory Material

.05 Explanatory material is defined as the text within a SAS (excluding any related appendixes or interpretations¹) that may:

- Provide further explanation and guidance on the professional requirements; or
- Identify and describe other procedures or actions relating to the activities of the auditor.

.06 Explanatory material that provides further explanation and guidance on the professional requirements is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (where not otherwise self-evident); it explains why the auditor might consider or employ particular procedures, depending on the circumstances; and it provides additional information for the auditor to consider in exercising professional judgment in performing the engagement.

.07 Explanatory material that identifies and describes other procedures or actions relating to the activities of the auditor is not intended to impose a professional requirement for the auditor to perform the suggested procedures or actions. Rather, these procedures or actions require the auditor's attention and understanding; how and whether the auditor carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the standard. The words *may*, *might*, and *could* are used to describe these actions and procedures.

Application

.08 The provisions of this section are effective upon issuance.²

¹ Auditing interpretations and certain appendixes represent interpretive publications, which differ from explanatory material. Interpretive publications, as defined in paragraphs .05 and .06 of section 150, *Generally Accepted Auditing Standards*, as amended, reside outside of the standards section of a SAS and are recommendations on the application of the SAS in specific circumstances, including engagements for entities in specialized industries. In contrast, explanatory material is always contained within the standards sections of the SAS and is meant to be more descriptive in nature. Interpretive publications are issued under the authority of the Auditing Standards Board (ASB) and consist of auditing interpretations of the SASs, appendixes to the SASs (except for previously issued appendixes to original pronouncements that when adopted modified other SASs), auditing guidance included in AICPA Audit and Accounting Guides, and AICPA auditing Statements of Position.

² The specific terms used to define professional requirements in this section are not intended to apply to interpretive publications issued under the authority of the ASB, since interpretive publications are not auditing standards. (See footnote 1.) It is the ASB's intention to make conforming changes to the interpretive publications over the next several years to remove any language that would imply a professional requirement where none exists. It is the ASB's intention that such language would only be used in the standards sections of the SASs.