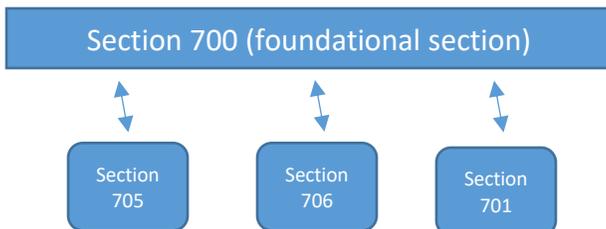


New auditor reporting Standards

What happened?

In May 2019, the AICPA Auditing Standards Board (ASB) issued, Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* as a final standard. SAS No. 134 contains the following sections:

- **Section 700, *Forming an Opinion and Reporting on Financial Statements*** The foundational section that addresses the auditor's responsibility to form an opinion on the financial statements and prescribes the form and content of the auditor's report when issuing an unmodified "clean" opinion. ([Click here](#) for information about the foundational standard for audits of employee benefit plans subject to ERISA.) This section also includes an appendix of amendments to various AU-C sections relating to auditor reporting and disclosures.



- **Section 705, *Modifications to the Opinion in the Independent Auditor's Report*** Addresses the form and content of the report when the auditor concludes that a clean auditor's opinion in accordance with section 700 is not appropriate (qualified, adverse, or disclaimer of opinion).
- **Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*** Addresses additional communications in the auditor's report (emphasis-of-matter and other-matter paragraphs).
- **New! Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*** Addresses the auditor's responsibility to communicate key audit matters (KAMs) in the auditor's report when the auditor is engaged to do so. SAS No. 134 does NOT require the communication of KAMs.



SAS No. 134 will benefit users of audited financial statements by placing the auditor's opinion at the front of the report for added visibility and providing necessary transparency into the basis for the auditor's opinion and the responsibilities of both entity management and auditors

What has changed?

SAS No. 134 replaces AU-C sections 700, 705 and 706 and introduces a new section 701. To enhance the communicative value and relevance of the auditor's report, the following key changes have been made:

Forming an Opinion and Reporting (Section 700 of SAS No. 134)

- **Opinion section required to be presented first**, followed by the Basis for Opinion section.
- **Basis for Opinion section required to follow the opinion section**, including a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit.
- **Enhanced auditor reporting relating to going concern**, including a description of the respective responsibilities of management when required by the applicable financial reporting framework, and the auditor for going concern.
- **Amends AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern***, to include a separate section in the auditor's report, when substantial doubt exists, under the heading "Substantial Doubt About the Entity's Ability to Continue as a Going Concern".
- **Expanded description of the auditor's responsibilities**, including the auditor's responsibilities relating to professional judgment and professional skepticism, and the auditor's communications with those charged with governance.

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What has changed? (continued)

- **Amends AU-C section 260, *The Auditor's Communication With Those Charged With Governance***, to require the auditor to communicate with those charged with governance about the significant risks identified by the auditor.

Key Audit Matters (Section 701 of SAS No. 134)

- When engaged to include key audit matters (KAMs), section 701 addresses both the auditor's judgement about what to communicate in the auditor's report and the form and content of such communication. GAAS does not require the communication of KAMs.

Modifications to the Opinion (Section 705 of SAS No. 134)

- Aligns the form and content of the auditor's report with the changes in section 700 of SAS No. 134 when the auditor concludes that a clean auditor's opinion in accordance with section 700 is not appropriate (qualified, adverse, or disclaimer of opinion). (Section 705 of SAS No. 134 does not change the existing requirements regarding circumstances in which a modification to the auditor's opinion is required, and for determining the type of modification to the auditor's opinion.)

Emphasis-of-Matter and Other-Matter Paragraphs (Section 706 of SAS No. 134)

- Clarifies the relationship between Emphasis-of-Matter (EOM) paragraphs and the communication of KAMs
 - When engaged to communicate KAMs, the use of the EOM paragraph is not a substitute for including the matter in the KAM section if the matter meets the definition of a KAM.
 - Using an appropriate heading is required. When KAMs are communicated, the heading is required to use the term "Emphasis of Matter"

Amendments Addressing Disclosures in the Audited Financial Statements

- **Amends various AU-C sections** to focus auditor attention on disclosures throughout the audit process, including new requirements in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements*, AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks*, and section 700.

- **Includes enhanced application material** in these and several other AU-C sections to assist auditors in addressing the practical challenges arising from the evolving nature of disclosures.

Other Related Projects

- **Proposed SAS *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports***, will supersede AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*, and will address the auditor's responsibilities relating to financial and nonfinancial information in an entity's annual report other than the financial statements and the auditor's report thereon. This proposed SAS would require a separate section be included in the auditor's report addressing other information.

Next steps?

SAS No. 134 is effective for audits of financial statements for periods ending on or after December 15, 2020, with early implementation not permitted.

SAS No. 134 is available for auditors to read and consider in order to adequately prepare for implementation, and can be viewed on the AICPA's website under [recently issued standards](#).