

# SAS No 134-141

## New Auditor Reporting Standards



CPAs & ADVISORS

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# Gelman, Rosenberg & Freedman CPAs is now GRF CPAs & Advisors



Please note our new address:

4550 Montgomery Avenue, **Suite 800N**, Bethesda, MD 20814

# Housekeeping

## *CPE Credit/Technical Support*

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- **Important:** Three (3) CPE words will be provided during the presentation. Please write them down – **we will not provide them again via Zoom or email (no exceptions)**.
- Please complete the electronic survey that will appear automatically at the **end of the webinar**.
- Attendees seeking CPE for this presentation must complete the survey and **enter all three CPE words**. You cannot claim CPE unless we receive a completed evaluation with the correct words.
- This presentation will be recorded and made available to download at [www.grfcpa.com/webinars](http://www.grfcpa.com/webinars).
- Technical questions about the survey can be addressed to Nathan McElveen at [nmcelveen@grfcpa.com](mailto:nmcelveen@grfcpa.com).

# Housekeeping

## *Additional Information*

<b>Learning Objective</b> To provide attendees with industry updates, guidance on 2021 changes and preparations for new accounting standards under SAS 134-141	<b>Instructional Delivery Methods</b> Group Internet-based
<b>Recommended CPE</b> 1.0 CPE Credit	<b>Recommended Fields of Study</b> Auditing – Technical
<b>Prerequisites</b> None required	<b>Advance Preparation</b> None
<b>Program Level</b> Basic	<b>Course Registration Requirements</b> None
<b>Refund Policy</b> No fee is required to participate in this session.	<b>Cancellation Policy</b> In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
<b>Complaint Resolution Policy</b> GRF CPAs & Advisors is committed to our participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact <a href="mailto:kdavis@grfcpa.com">kdavis@grfcpa.com</a> with any concerns.	
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# Presenters

*Meet the instructors*

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**Max Manley, CPA**

Senior Manager, Audit



**John McIntosh, CPA**

Manager, Audit

# Agenda

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Introduction/Effective  
Dates



SAS No 134



SAS No 135-141

# Effective Dates

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- SAS No. 134 – 140 were originally effective for fiscal years ending on or after December 15th, 2020
- Due to COVID-19 pandemic, SAS No. 141 was issued to allow for a one-year delay of effective dates
- New effective date is for FYs ending after December 15, 2021
- Early implementation is allowed
- Simultaneous implementation is required



# New Standards

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- No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements
- No. 135, Omnibus Statement on Auditing Standards
- No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA
- No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports

# Polling Question #1

Which of the following is **NOT** changed by the upcoming audit standards

- A. *Expanded description of the auditor's responsibility*
- B. *Swapping the term "Unmodified" with the word "Clean"*
- C. *Aligning the US audit report with the current international presentation*
- D. *Disclosure of "Key audit matters" in the report*

# New Standards

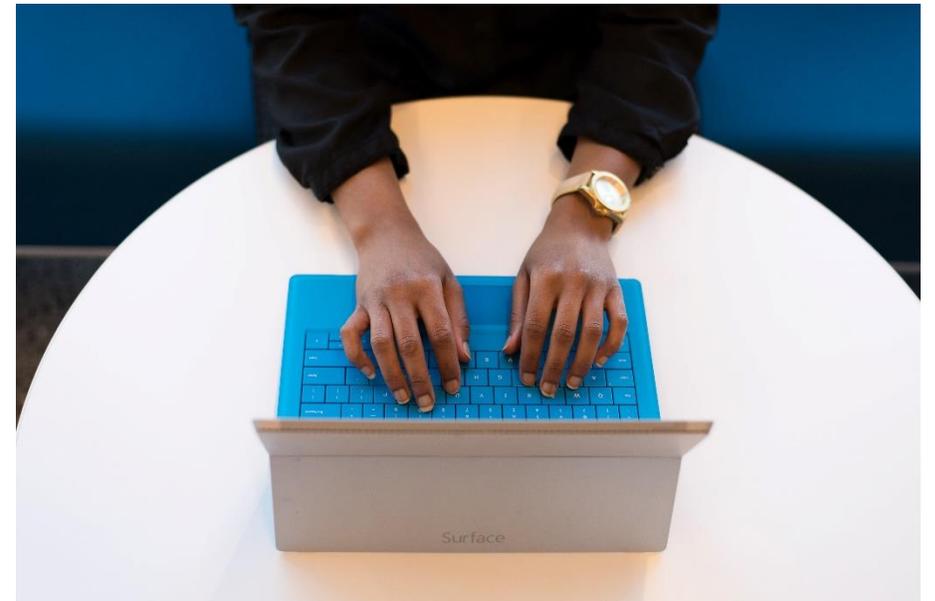
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- No. 138, Amendments to the Description of the Concept of Materiality
- No. 139, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134
- No. 140, Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137
- No. 141, Amendment to the Effective Dates of SAS Nos. 134—140

# No. 134, Auditor Reporting and Amendments

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- Issued in May 2019
- Main goal is to overhaul the audit report and converge with International standards
- Customizes the report for the auditee as a value-added service
- Objective
- Form an opinion based on an evaluation of audit evidence
- Clearly express and opinion – by reordering report paragraphs



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Washington, D.C.

### Report on the Financial Statements

We have audited the accompanying financial statements of the (the ACRONYM), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ACRONYM as of December 31, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# Independent Auditor's Report

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[Appropriate Addressee]

[City and State]

## Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

# Basis for Opinion

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



## Polling Question #2

In the new reporting format, which section will follow the opinion?

- A. *The auditor's responsibility*
- B. *The basis for opinion*
- C. *Key audit matters*
- D. *Management responsibility*

# Responsibilities of Management for the Financial Statements

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

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

# Auditor's Responsibilities for the Audit of the Financial Statements

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.



# Auditor's Responsibilities for the Audit of the Financial Statements

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In performing an audit in accordance with GAAS, we:

- Use professional judgment and exercise professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.

# Auditor's Responsibilities for the Audit of the Financial Statements

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In performing an audit in accordance with GAAS, we:

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern within one year after the date that the financial statements are issued.



# Auditor's Responsibilities for the Audit of the Financial Statements



*We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and internal control related matters identified during our audit.*

## Polling Question #3

Which of the following is **NOT** included in the new Auditor responsibility bullet points

- A. *Exercising professional judgement and professional skepticism*
- B. *Following a risk based approach and responding on a test basis*
- C. *Reviewing client account reconciliations for reasonableness*
- D. *Obtaining an understanding of the organization's internal controls*

# Report on Other Legal and Regulatory Requirements

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[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

# Key Audit Matters - KAM (Section 701)

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- Defined as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements.
- 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.

# Key Audit Matters - KAM (Section 701)

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- Communicating key audit matters is not a substitute for:
  - Disclosures in the financial statements
  - A modified opinion
  - Communication of substantial doubt about an entities ability to continue as a going concern
  - A separate opinion on individual matters
- KAM should not be communicated when there is an adverse or disclaimer of opinion



# Key Audit Matters

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Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report of this SAS]

# SAS 135 - Omnibus Statements on Auditing Standards

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- Purpose
  - SAS 135 is intended to more closely align AICPA guidance with the PCAOB's standards by primarily amending AU-C section 260, *Communications With Those Charged With Governance*, AU-C section 550, *Related Parties*, and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*, in *AICPA Professional Standards*
  - Enhancement of audit quality
- Impacts on Management and the Auditors
  - Changes to the auditor's communication with governance regarding
    - Significant unusual transactions
    - Difficult or contentious matters
    - Uncorrected misstatements
  - Enhanced focus on audit procedures over significant unusual transactions
  - Enhanced focus on audit procedures over related party transactions

# SAS 135 - Omnibus Statements on Auditing Standards

## Auditor's Communication with Those Charged with Governance – Significant Unusual Transactions

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- A Transaction that is outside the normal course of business or that otherwise appears to be unusual due to its timing, size, or nature.
  - Complex equity transactions
  - Transactions with overseas entities
  - Leasing or management services provided without consideration
  - Sales transactions with unusually large discounts or returns
  - Transactions with circular arrangements
  - Transactions under contracts with changing terms
- Auditor's communication will include
  - Auditor's views
  - Auditor's understanding of the business purpose



# ***SAS 135 - Omnibus Statements on Auditing Standards***

## ***Auditor's Communication with Those Charged with Governance - Difficult or Contentious Matters***

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- Auditor's communication must include matters that are difficult or contentious for which the auditor consulted outside the engagement team and that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process
  - Issues that are complex or unfamiliar
  - Estimates with a high degree of estimation uncertainty
  - Significant risks
  - Limitations imposed by management
  - Non-compliance with laws or regulations
- If no difficult or contentious matters encountered, include statement to that effect
- Similar to current communication of significant difficulties encountered in performing the audit

# SAS 135 - Omnibus Statements on Auditing Standards

## Auditor's Communication with Those Charged with Governance - Uncorrected Misstatements

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- Current Communication Includes:
  - Identification of uncorrected misstatements and the effect they may have, individually or in the aggregate, on the auditor's report
  - The effect of uncorrected misstatements related to prior period on the relevant classes of transactions, account balances, or disclosures, and the financial statements as a whole
- Additional Communication Under SAS 135
  - That uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statement under audit
  - Increased emphasis on correcting all misstatements identified during an audit, even if not material



# SAS 135 - Omnibus Statements on Auditing Standards

## Audit Procedures - Significant Unusual Transactions and Related Party Transactions

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- New inquiries
  - Inquiry as to whether the entity has entered into any significant unusual transactions (nature, term, business purpose)
  - Inquire about controls around authorization and approval of significant unusual transactions
    - Inquiries made of those charged with governance in addition to management
  - Inquiries about any related party transactions
    - Business purpose of entering into a transaction with a related party versus and unrelated party
    - Related party transactions not subject to standard internal control procedures
    - The understanding of those charged with governance of related party relationships and transactions
    - Whether those charged with governance have concerns about related party relationships and transactions

# ***SAS 135 - Omnibus Statements on Auditing Standards***

## ***Audit Procedures - Significant Unusual Transactions and Related Party Transactions***

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- Consideration of fraud
  - Evaluate whether significant unusual transactions and related party transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets
  - Indicators of fraud could include:
    - Overly complex transactions
    - Transactions have not been discussed with those charged with governance
    - Inadequate documentation
    - Emphasis on accounting treatment than the substance of the transaction
    - Related party transactions not reviewed or approved by those charged with governance
    - Transactions with previously undisclosed related parties

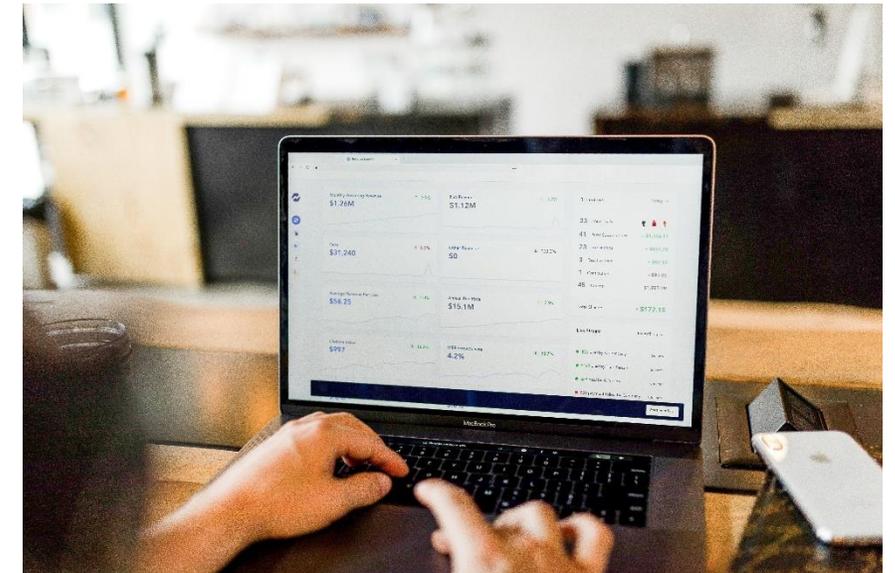
# SAS 136 – Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

- Purpose

- SAS No. 136 requires enhanced audit quality and a revised auditor’s report on ERISA plan financial statements to provide better insight into the responsibilities of both management and the auditor.
- Effort to address issues found during DOL reviews of Independent Audits of Employee Benefit Plans

- Impacts on Management

- Affirmation of management’s responsibilities for:
  - Maintaining a current plan document, including all plan amendments
  - Administering the plan in conformity with the Plan’s provisions
  - Maintaining sufficient participant records



# ***SAS 136 – Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

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- Impacts on Management (Continued)

- When management elects to have an ERISA Section 103(a)(3)(C) Audit (Formerly, a Limited Scope Audit), management must affirm that:
  - This type of audit is permissible under the circumstances
  - Investment information is prepared and certified by a qualified institution
  - The certified investment information is appropriately measured, presented and disclosed
- Provide Auditor with a substantially complete Form 5500 prior to dating of the auditor's report
  - Must include required schedules

# ***SAS 136 – Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

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- Impacts on Auditors
  - Limited scope audit replaced with ERISA Section 103(a)(3)(C) audit
    - Disclaimer of Opinion no longer issued, replaced with ERISA Section 103(a)(3)(C) audit report
    - Report format overhauled:
      - Scope and Nature of the ERISA Section 103(a)(3)(C) Audit
      - Opinion (two-part opinion – addresses information not covered by the certification, and procedures required to be performed on the certified information)
      - Basis for Opinion
      - Responsibilities of Management (Expanded)
      - Responsibilities of the Auditor (Expanded)
      - Other Matter – Supplemental Schedules Required by ERISA

# SAS 136 - *Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

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- Impacts on Auditors

- Limited scope audit replaced with ERISA Section 103(a)(3)(C) audit

- Requirement to communicate reportable findings in writing

- Identified instances of noncompliance or suspected noncompliance

- Findings that are significant and relevant to those charged with governance

- Indications of deficiencies in internal control identified



# ***SAS 137 – The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***

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- Purpose

- Provide Transparency with respect to the auditor’s responsibility for other information included in an annual report when the auditor has obtained all of the other information at the date of the auditor’s report
  - Clarifies the scope of documents that the auditor is required to subject to audit procedures
  - Indicate that an “Annual Report” may not meet the definition of Annual Report for purposes of the SAS

- Impact on Management

- Provide written acknowledgement regarding which document or documents comprise the annual report

# ***SAS 137 – The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***

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- Impact on Auditors
  - Responsibility to consider whether a material inconsistency exists between the audited financial statements and other information in the annual report
  - Request that any identified material inconsistencies or misstatement be corrected
  - Include a separate section in the auditor’s report with the heading “Other Information”

# ***SAS 137 – The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***

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- Annual Report
  - A document, or combination of documents, typically prepared on an annual basis by management, or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements

# ***SAS 137 – The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***

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- Other Information

- Financial or nonfinancial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report

- Board Chairman or corporate governance annual statement
- Management’s Internal control and risk assessment reports
- Financial Summaries or highlights (Selected monthly, quarterly, or semi-annual data)
- Employment data
- Planned capital expenditures
- Financial ratios

# ***SAS 138 – Amendments to the Description of the Concept of Materiality***

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- Purpose
  - Amend the definition of materiality to be more consistent with the United States judicial system, the Public Company Accounting Oversight Board, and the Securities Exchange Commission
- Impact
  - Not expected or intended to change current practice
  - Definition changing to match current practice



# ***SAS 138 – Amendments to the Description of the Concept of Materiality***

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- Old Definition

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

- New Definition

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

# SAS 139 – Amendments to AU-C Sections 800,805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134

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- Technical corrections to align new auditor reporting language for statements that are:
  - Prepared following special purpose frameworks
  - Single financial statements and specified elements
  - Accounts or items in a financial statement
  - Summary financial statements
- Revisions to AU-C Section 800
  - For audits prepared in accordance with special purpose frameworks
    - Add statement to the auditor’s report that the financial statements may not be suitable for another purpose

# SAS 139 – Amendments to AU-C Sections 800,805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134

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- Revisions to AU-C Section 805
  - Addresses factors to consider in determining whether matters included in the auditor’s report on a complete set of financial statements is relevant to an engagement to report on a single financial statement or specified element
- Revisions to AU-C Section 810
  - Auditors report on summary financial statement is not required to describe key audit matters identified in the audit of a full set of financial statements

# SAS 140 – Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137

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- AU-C Sections 725 and 730 Aligned with SAS No. 137
  - Amended to require reporting on supplementary information in a separate section of the auditor's report as opposed to in an other-matter paragraph
- Revisions to AU-C Section 940
  - Applies to audits of internal control over financial reporting that are integrated with an audit of financial statements
  - When issuing a separate report on internal controls over financial reporting, include references to the report on the financial statements, and vice-versa

# SAS 140 – Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137

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- Revisions to AU-C Section 930

- Change reporting requirements with respect to Reviews of interim financial information

- Revisions to AU-C Section 935

- Revision for consistency with the Uniform Guidance
- Requirement for a combined report on compliance and internal control as the default
- Amends the definition of material noncompliance to align with the description of materiality in SAS No. 138

# SAS 141 - Amendment to the Effective Dates of SAS Nos. 134-140

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- Issued to allow for a one-year delay of the effective dates for SAS 134-140 to provide more time for accounting firms and their clients to implement this suite of standards in light of the COVID-19 pandemic
- New effective date of December 15, 2021
- Lifts the prohibition against early implementation
- Accounting Standards Board recommends that all of these SASs be implemented concurrently



# Questions?

*Contact Us*

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