



## AUDITING STANDARDS BOARD

### MEETING AGENDA

May 16-17, 2023

Nashville, TN

Topics Highlighted in **Green** Will Have Required Reading Prior to the Meeting

Other Topics Will Also Have Related Materials, But Such Materials Will Not Be Required Advance Reading

Tuesday, May 16 9:00am – 3:30pm (CDT)		Wednesday, May 17 9:00am – 5:00pm (CDT)	
9:00–9:30 Agenda Item 1	<b>Chair/AICPA Update</b>	9:00–10:00 Agenda Item 6	<b>Public Interest Entities</b> Discuss Issues
9:30–11:00 Agenda Item 2	<b>Attestation Standards – Quality Management</b> Discuss Draft and Issues	10:00–10:45 Agenda Item 7	<b>Audits of Less Complex Entities</b> Discuss Issues
11:00–11:30	<i>Break</i>	10:45–11:15	<i>Break</i>
11:30–1:00 Agenda Item 2	<b>Attestation Standards – Quality Management</b> Discuss Draft and Issues	11:15–2:15	<b>ASB Executive Session</b>
1:00–2:00	<i>Lunch</i>	2:15–3:15 Agenda Item 9	<b>Fraud</b> Discuss Issues
2:00–3:00 Agenda Item 3	<b>Sustainability Attestation Standard</b> Discuss issues	3:15–3:45	<i>Break</i>
3:00–3:30 Agenda Item 4	<b>Task Force Updates</b> <ul style="list-style-type: none"><li>• Sustainability Guidance</li><li>• Going Concern</li><li>• Audit Evidence</li></ul>	3:45–4:45 Agenda Item 10	<b>Technology</b> Discuss Issues
Agenda Item 5	<b>ASB Executive Session</b>	4:45–5:00	<b>Concluding Remarks</b>
		<i>Public Meeting Ends</i>	



# Auditing Standards Board *Agenda Item 1*

*May 2023 ASB Meeting*

*Sara Lord, ASB Chair*

*Jennifer Burns, AICPA Chief Auditor*



# Chair and Chief Auditor Updates

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## Topics

- Recap of recent meetings/activities
- Approval of January highlights
- Workplan
- Responses to IAASB Exposure Drafts
- TQAs issued since January
- Website



# 2023 ASB Workplan

Key: Info = Information gathering    CL = Comment letters    DD = Discussion draft    DI = Discuss issues  
 ED = Exposure draft    Final = Final standard/guidance    TBD = To be determined

ASB Workplan	Planned Activities			
	2023			
1. Current Projects*	Q1	Q2	Q3	Q4
<b>a. Standard Setting Projects</b>				
<b>Quality Management amendments to Attestation Standards</b>	DI	ED		TBD
<b>b. Active Projects Under Consideration</b>				
<b>Attestation Standards</b> Internal Control		DI	DI	DI
<b>Leveraging Technology**</b>	Info	Info	Info	Info

\*Projects are further described in the ASB Workplan on the ASB's webpage.

\*\* Leveraging Technology – Is a project to consider additional guidance or actions that might be taken to further encourage the effective and appropriate use of technology, including data analytics, to enhance audit quality. (See ASB's workplan on its webpage).

# 2023 ASB Workplan

Key: Info = Information gathering  
ED = Exposure draft

CL = Comment letters  
Final = Final standard/guidance

DD = Discussion draft  
TBD = To be determined

DI = Discuss issues

Planned Activities	2023				Notes
<b>2. IAASB Monitoring</b>	Q1	Q2	Q3	Q4	
<i>Faster Track for ASB Action/Priority</i>					
<b>Audits of Less Complex Entities</b> <i>IAASB Expected Timing (Note: Second ED issued Q4 2022)</i>	DI	DI	DI	DI	<i>Vote Final Q3 2023</i>
<b>ESG/Sustainability</b> <i>IAASB Expected Timing</i>	Info	DI <i>ED</i>	DI	DI	<i>ASB ED in 2024 Vote Final Q3 2024</i>
<b>Fraud</b> <i>IAASB Expected Timing</i>	Info	DI	DI	DI/DD <i>ED</i>	<i>ASB ED in 2024 Vote Final Q1 2025</i>
<i>Slower Track for ASB Action/Priority</i>					
<b>Audit Evidence</b> <i>IAASB Expected Timing (Note: ED issued Q4 2022)</i>	DI			DI	<i>Vote Final Q2 2024</i>
<b>Definition of Listed Entity and PIE</b> Track 1 – Transparency <i>IAASB Expected Timing</i>	Info	DI	DI	DI	<i>T1: Vote Final Q2 2023</i>
Track 2 – Definitions and Differential Guidelines <i>IAASB Expected Timing</i>	Info	Info	Info	Info	<i>T2: ED – Release Q1 2024; Vote Final Q4 2024</i>
<b>Going Concern</b> <i>IAASB Expected Timing</i>	DI <i>ED</i>	DI	DI	DI	<i>Vote Final Q4 2024</i>
<b>3. PCAOB Monitoring</b>					
<b>Confirmations</b>	Info	Info	Info	Info	<i>Proposal Issued Q4 2022</i>
<b>Quality Control</b>	Info	Info	Info	Info	<i>Proposal Issued Q4 2022</i>
<b>AS 1000, General Responsibilities</b>	ED	Info	Info	Info	<i>Proposal Issued Q1 2023</i>

# Responses to IAASB Exposure Drafts

	Actual/Anticipated ED release (not vote of ED)
	Comment letter response period
	Period when the comment letter is due (or expected to be due)

Going Concern									
Sustainability									
	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23

## Recently submitted IAASB Comment Letters:

- ✓ IAASB Strategy and Work Plan: April 11, 2023
- ✓ Audit Evidence: April 24, 2023
- ✓ Audits of Less Complex Entities, Part 10 Group Audits: May 2, 2023

## Notes:

- Timeline corresponds to IAASB project pages as May 10, 2023
- Anticipated 2024 IAASB Exposure Draft release (not vote):
  - Fraud Q1
  - PIE-Track 2: Q1

# Additional Activities

ASB – Guides/Practice Aids	
1. Guidance and Tools to Support the Implementation of Standards	Planned Timing
Quality Management Practice Aid	June/July 2023
2. Technical Support of Interpretive Publications	
Enhance updates to industry and topical accounting and auditing guides, for example: <ul style="list-style-type: none"> <li>Enhance updates to EBP Guide</li> </ul>	April 2023 (online version)
3. Technical Support of Certain Non-Authoritative Publications	
Practice Aid– Accounting for and Auditing of Digital Assets. In process: <ul style="list-style-type: none"> <li>SOC chapter: Consideration of an Entity’s Use of a Service Organization</li> <li>SAB 121 Q&amp;As</li> <li>Existence, Rights, Obligations Q&amp;As</li> <li>Valuation Q&amp;As</li> <li>Crypto-lending/borrowing Q&amp;As</li> </ul>	Chapters and Q&As added as completed
4. Technology Resource	
The Use of Technology in an Audit of Financial Statements Resource (Technology Resource) <ul style="list-style-type: none"> <li><i>Module 1-A: The Benefits of Leveraging Technology in the Auditor’s Risk Assessment and of Obtaining an Understanding of the Entity’s Use of Technology</i></li> <li><i>Module 1-B: Commonly Used Automated Tools and Techniques in the Auditor’s Risk Assessment.</i></li> <li><i>Module 1-C: Example of the Auditor’s Use of Technology When Performing Risk Assessment Procedures</i></li> </ul>	June/July 2023

# TQAs Issued Since January

## **Q&A Section 6301, Auditing Insurance Entities**

Q&A section 6301.01, “Auditor Considerations When Using the Work of a Loss Reserve Specialist Employed or Engaged by Management as Audit Evidence” (May 2023)

## **Q&A Section 9165, Other Information Included in Annual Reports**

Q&A section 9165.01, “Auditor Reporting When the Entity Issues Its Annual Report Subsequent to Its Financial Statements” (revised May 2023)

Q&A section 9165.04, “Auditor Reporting When the Entity Issues an Annual Report and Separate Stand-alone Financial Statements on the Same Date” (May 2023)

## **Q&A Section 6933, Auditing Employee Benefit Plans**

Q&A section 6933.13, “Background to Sections 6933.14–.17” (April 2023)

Q&A section 6933.14, “When a Plan Provision Is Considered “Relevant” in Accordance With AU-C Section 703” (April 2023)

Q&A section 6933.15, “Testing of Plan Provisions in Accordance With AU-C Section 703” (April 2023)

Q&A section 6933.16, “Documenting the Auditor’s Consideration of Plan Provisions” (April 2023)

Q&A section 6933.17, “Deciding to Test Other Plan Provisions” (April 2023)

## **Q&A Section 9150, Preparation, Compilation, and Review Engagements**

Q&A section 9150.35, “Reporting on Comparative Financial Information in a Document Containing Current-Year Financial Statements That Were Subjected to a Review or Compilation Engagement” (March 2023)



# New Way to Navigate to Pages

The screenshot shows the AICPA & CIMA website with the following elements:

- Browser Address Bar:** <https://www.aicpa-cima.com/topic/audit-assurance>
- Header Bar:** Currency: US dollars (\$), Cart, Help, Not syncing.
- Logo and Search:** AICPA & CIMA logo, Search AICPA-CIMA.com, Log in, Register.
- Navigation Menu:** Home, About, Resources, Careers, Membership, News, Learning, Credentials, Business Solutions, Local sites.
- Dropdown Menu (About):**
  - About AICPA & CIMA
  - Governance
  - Advocacy
  - Standards & policies** (highlighted)
  - AICPA & CIMA Press Center
  - Contact us
- Standards & policies Page:**
  - AICPA Professional ethics
  - CIMA Professional ethics
  - AICPA Code of Professional Conduct
  - AICPA commitment to diversity
  - AICPA & CIMA statement on modern slavery
  - Preparation, Compilation, and Review Standards** (highlighted)
  - Audit, Attest & Quality Control Standards** (highlighted)
  - Peer Review Standards
  - Tax Standards
  - PFP Standards
- Footer:** Four columns of resources with images and titles: Audit, Attest & Quality, Audit Risk Assessment, Quality Management, Audit Evidence & Reports.

## Top Hits

- [Audit, Attest, QM Standards web page](#)
- [Prep, Comp, Review Standards web page](#)
- [ASB web page](#)
- [QM standards and related resources](#)
- [Digital Assets practice aid](#)
- [ESG practice aid](#)
- [Standards currently effective](#)
- [Standards recently issued but not yet effective](#)
- [Technical Questions and Answers](#)

# Spotlight on Resources

- [Risk Assessment in a Financial Statement Audit \(New Guide as of January 1, 2023\)](#)
- [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information and Climate-Related Financial Disclosures\)](#)
- [Crosswalk between SQMS No. 1 and SQCS No. 8, as amended](#)
- [Firm checklist to guide your quality management system](#)

# Appendix 1

*ASB members and staff at AICPA Engage  
Conference*





## ASB at AICPA Engage Conference – June 2023

- ASB/ARSC Update
- Quality Management
- SAS 145 Introduction
- SAS 145 Deeper Dive
- Group Audits – Consolidating Your Knowledge
- Using Technology in the Audit – Part 1 and Part 2
- You Want Me to Certify What?
- Latest Fraud Trends and Refresher on Skepticism

**Attestation Standards Task Force  
Draft Proposed Quality Management SSAE**

**I. Objective of Agenda Item**

To review proposed revisions primarily to AT-C section 105, *Concepts Common to All Attestation Engagements* and also to the documentation requirements in AT-C sections 205, *Assertion-Based Examination Engagements*, 210, *Review Engagements*, and 215, *Agreed-Upon Procedures Engagements*. The revisions are intended to conform, as appropriate, with the following standards:

Suite of Quality Management Standards:

- [Statement on Quality Management Standards \(SQMS\) No. 1, A Firm's System of Quality Management](#)
- [SQMS No. 2, Engagement Quality Reviews](#)
- [Statement on Auditing Standards \(SAS\) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards](#)
- [Statement on Standards for Accounting and Review Services No. 26, Quality Management for an Engagement Performed in Accordance With Statements on Standards for Accounting and Review Services](#)

In addition, the proposed revisions include amendments to AT-C section 105 intended for conformity with [SAS No. 149, Special Considerations — Audits of Group Financial Statements \(Including the Work of Component Auditors and Audits of Referred-to Auditors\)](#).

The intent is to walk up to a potential vote to expose the proposed revisions for public comment but to delay such vote until the Task Force has the opportunity to consider the draft of the proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements* expected to be included in the materials for the June 2023 International Auditing and Assurance Standards Board meeting. While the ASB has a separate task force (ESG Task Force, Co-Chaired by Diane Hardesty and Catherine Ide and staffed by Ahava Goldman and Judith Sherinsky), the objective of the Attestation Standards Task Force with these proposed amendments is to avoid a situation in which the same paragraphs in the attestation standards are proposed to be revised by different exposure drafts (and may be in conflict). The plan will be to present revisions to the ASB at a meeting prior to the October 2023 ASB meeting.

The exposure draft is tentatively titled *Statement on Standards for Attestation Engagements (SSAE), Amendments to the Attestation Standards for Appropriate Consistency With the New and Revised Quality Management Standards*.

**II. Attestation Standards Task Force**

Halie Creps, *Chair*, KPMG LLP  
Michael Barton, ASB Member, Sikich LLP  
Michael Brand, representative of the Technical Issues Committee, BMSS LLC  
Sherry Chesser, ASB Member, Landmark PLC  
Antonia Chong, Deloitte & Touche LLP  
Marne Doman, PricewaterhouseCoopers LLP  
Michael Manspeaker, representative of the Accounting and Review Services Committee (ARSC), Smith  
Elliot Kearns & Company  
Paul Penler, Ernst & Young LLP  
Laura Schuetze, Grant Thornton LLP (and technical advisor to ASB member Maria Manasses)  
Michael Westervelt, Chair of the ARSC, CliftonLarsonAllen LLP  
Matthew Zaun, Government Accountability Office

The Task Force is staffed by Mike Glynn.

### III. Background

#### Scope of Initial Project (Discussed with the ASB in January 2023) – Amendments to the Attestation Standards for Conformity with the Suite of Quality Management Standards

In June 2022, the Auditing Standards Board (ASB) issued SQMS Nos. 1 and 2 and SAS No. 146.

SAS No. 146 includes an appendix that amended various SASs and also paragraphs .06-.07 of AT-C section 105. The objective of SAS No. 146 was to clarify and strengthen the key elements of quality management at the engagement level. SAS No. 146 achieved this objective by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement and reinforcing the importance of quality to all members of the engagement team.

That same month, the ARSC issued SSARS No. 26. The ARSC's objective was to revise certain AR-C sections (primarily AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*) to align with the quality management standards issued by the ASB.

While SAS No. 146 amended paragraphs .06-.07 of AT-C section 105 to conform to the terminology used in SAS No. 146, it did not amend the definitions in paragraph .10 of AT-C section 105 or the requirements in paragraphs .34-.36 and .45 related to quality control for consistency with the SQMS Nos 1 and 2. To ensure consistency in the requirements for quality management at the engagement level across the various services that a practitioner may provide that fall under the SQMS umbrella, further conforming amendments to AT-C section 105 (and minor revisions to AT-C sections 205, *Assertion-Based Examination Engagements*; 210, *Review Engagements*; and 215, *Agreed-Upon Procedures Engagements*) are necessary.

One of the benefits of the AICPA suite of standards is the level of quality they provide to the recipients of services provided thereunder and the expectation of that quality is the same for attestation engagements as it is for audits, reviews, and other covered services. The Task Force developed the proposed changes to the attestation standards to conform to the suite of quality management standards included as Agenda item 2A to revise the aforementioned AT-C sections to promote consistency with the SQMS Nos. 1 and 2, SAS No. 146, and SSARS No. 26. Agenda item 2C provides a mapping that, among other things, illustrates elements of SAS No. 146 that are not proposed to be included in AT-C section 105 (note, Agenda item 2C is included as optional reading material for ASB members).

The IAASB issued [Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards](#) in January 2022. Those amendments included revisions to International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. Agenda item 2D indicates how the proposed changes to the attestation standards conform with the revisions to ISAE 3000 (Revised) (note, Agenda item 2D is included as optional reading material for ASB members).

#### Initial Draft Discussed With the ASB at its Meeting in January 2023

At the ASB's January 2023 meeting, the Task Force presented an initial draft of the proposed revisions to the attestation standards that were intended to amend the standards for conformity with the suite of quality management standards. The ASB's objective was to discuss and provide feedback to the Task Force regarding the first read draft. The ASB's feedback included:

- The ASB acknowledged that its initial directive to the Task Force was for the proposed amendments to the attestation standards to be a "light touch" similar to what had been included as SAS No. 146 conforming amendments in the appendix to SAS No. 146. After discussion, the Task Force was directed to include additional changes in the proposed revisions to better align with SAS No. 146.

- The ASB also directed the Task Force to consider conforming amendments to the concept of “other practitioners”. The Task Force indicated that it would consider potential revisions to the attestation standards where there is overlap between the group and quality management concepts. Such consideration may include revisions regarding the use of other practitioners for consistency with changes made to AU-C section 935, *Compliance Audits* by SAS No. 148, *Amendment to AU-C Section 935*.

The ASB directed that a revised draft of the proposed revisions be brought to the Board at its meeting in May 2023.

#### **IV. Matters for Discussion With the ASB**

Ms. Creps will use Agenda item 2A to walk the ASB through the proposed revisions to the attestation standards. Agenda item 2B is a redline to reflect the revisions to the draft presented at the January 2023 ASB meeting.

In summary, the proposed revisions to AT-C section 105 would result in revisions to 9 requirement paragraphs and 4 application paragraphs in AT-C section 105 and would result in the introduction of 16 new requirement and 20 new application paragraphs in AT-C section 105. The proposed revisions would also revise 1 requirement paragraph in each of AT-C sections 205, 210, and 215.

The following represent specific matters on which the Task Force requests input.

##### **Approach to Drafting SSAE Content**

Pursuant to the ASB’s initial direction to the Task Force, the January 2023 draft of the proposed SSAE was a “light touch” with respect to proposed revisions to AT-C section 105 resulting in targeted changes for consistency with SAS No. 146. The concern was that a heavier approach would result in AT-C section 105 becoming too “top-heavy” with quality management requirements and guidance.

Subsequently, the ASB directed the Task Force to include additional changes to better align with SAS No. 146, but to not blindly copy in everything from SAS 146 and the Audit Issues Task Force directed the Task Force to incorporate relevant proposed requirements from ISSA 5000 draft.

As it relates to application guidance with the aforementioned considerations in mind, and after consultation with the Chair of the ASB and the AICPA’s Chief Auditor, the Task Force proposes to include application paragraphs for new requirements in the proposed SSAE based on the application guidance linked to the equivalent requirements in both SAS No. 146 and ISSA 5000. That is, application paragraphs would only be included if they are in both SAS 146 and ISSA 5000 for an equivalent requirement that is being proposed in the SSAE.

Existing application guidance that is affected by changes to existing requirements are updated to reflect those changes (and for consistency with SAS No. 146).

The Task Force considered the following approaches to incorporating application guidance, but ultimately rejected them in favor of the above approach for the reasons noted below:

- omitting all application guidance unless “absolutely necessary” for either:
  - an understanding of the corresponding requirement, or
  - to explain a difference with the corresponding requirement in SAS No. 146

This approach was based on the theory that practitioners are familiar with the guidance from the auditing literature and that omitting the application guidance does not result in a less robust standard. The Task felt this approach was not appropriate because is difficult to justify excluding application guidance that is included in both SAS No. 146 and proposed ISSA 5000 (hard to support having a third set of application guidance – forth if one considers SSARs).



- incorporating all of the application guidance from SAS No. 146. The Task Force did not adopt this approach because SAS No. 146 contains a tremendous amount of application guidance and is too detailed/robust for attestation standards. Likewise, the Task Force rejected the concept of incorporating all of the application guidance from ISSA 5000 because incorporating quality management requirements or application guidance that is not in SAS No. 146 could imply that SAS No. 146 is missing something. There is not a strong rationale for going above and beyond SAS No. 146 in the SSAE.

Because convergence with ISAE 3000 (Revised) was considered as part of the project that resulted in the issuance of SSAE No. 18, *Attestation Standards: Clarification and Recodification* in April 2016, the Task Force did not consider revisions to AT-C section 105 for further convergence with that standard, with the exception of the matter in the next section.

#### ASB Consideration

ASB is asked whether it agrees with the Task Force's approach to drafting the proposed SSAE.

#### Proposed Requirement for the Engagement Partner to Have Appropriate Competence

When considering requirements and application guidance in the draft ISSA 5000, the Task Force noted that ISSA 5000 draft includes a requirement, which was also included in extant ISAE 3000 (Revised), for the engagement leader to have competence in assurance skills and techniques developed through extensive training and practical application and sufficient competence in the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria (ISSA 5000 March 2023 draft, Part 2, paragraph 10, first and third bullets) and related application guidance. Even though this concept is in ISAE 3000, it was not included in previous SSAEs and is not reflected in the AT-Cs, nor is it in SAS 146 from an audit perspective. While both SAS 146 and the amendments proposed for QM SSAE include requirements for the engagement partner to determine whether the engagement team has the appropriate competence and capabilities to perform the engagement, they do not include an explicit requirement that the engagement partner themselves have the specific competencies described above.

The Task Force has concluded, given the nature of an attestation engagement and the subject matter that is frequently reported on, that AT-C section 105 should include a requirement consistent with the ISSA 5000 draft and extant ISAE 3000 (Revised). The Task Force proposes the following requirement and associated application guidance:

Requirement	Application Guidance
<b>.39 The engagement partner should have the appropriate competence, including knowledge of the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria. (Ref: par. .A77-.A79)</b>	<p><b>.A77 Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality Management requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements.</b></p> <p><b>.A78 The engagement partner is required to have sufficient competence in the underlying subject matter to be able to:</b></p>

Requirement	Application Guidance
	<p><i>(a) When needed, ask appropriate questions of a practitioner's specialist and evaluate whether the answers make sense in the engagement circumstances;</i></p> <p><i>(b) Evaluate a practitioner's specialist's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and</i></p> <p><i>(c) Take responsibility for the conclusions reached on the engagement</i></p> <p><i>.A79 What constitutes sufficient knowledge of the underlying subject matter and its measurement or evaluation depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement partner has sufficient knowledge of the underlying subject matter and its measurement or evaluation in order to accept responsibility for the opinion, conclusion, or findings is a matter of professional judgment for the engagement partner, and may involve taking account of factors such as:</i></p> <p><i>(a) The nature and complexity of the underlying subject matter and its measurement or evaluation;</i></p> <p><i>(c) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter; and</i></p> <p><i>(c) The engagement partner's and engagement team's competence and previous experience in relation to the underlying subject matter.</i></p>

#### ASB Consideration

ASB is asked whether the explicit requirements and the associated application guidance related to the engagement partner's competence in assurance skills and techniques and the underlying subject matter and its measurement or evaluation (and related application paragraphs) should be included in the QM SSAE.

Definition of “Engagement Team”

The proposed revised definition of *engagement team* is consistent with the corresponding definition in SAS No. 146 with the exception of the addition of the phrase “including an *other practitioner* but.” The inconsistency is illustrated below:

SAS No. 146 Definition	Proposed Revision to Definition in AT-C section 105
<p><b>Engagement team.</b> All partners and staff performing the audit engagement and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external specialist<sup>fn5</sup> and internal auditors who provide direct assistance on an engagement.<sup>6</sup> (Ref: par. A15–A25)</p> <p><sup>fn5</sup> Paragraph .06 of AU-C section 620, <i>Using the Work of an Auditor’s Specialist</i>, defines the term <i>auditor’s specialist</i>.  <sup>fn6</sup> AU-C section 610, <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance</p>	<p><b>Engagement team.</b> All partners and staff performing the engagement and any <i>other</i> individuals <del>engaged by the firm or a network firm</del> who perform attestation procedures on the engagement <b>including an other practitioner but</b> <del>This excludes</del> <b>excluding</b> a practitioner’s external specialist and engagement quality control reviewer engaged by the firm or a network firm. The term <i>engagement team</i> also excludes individuals within the client’s internal audit function <b>internal auditors</b> who provide direct assistance <b>on an engagement.</b><sup>fn 7</sup> (Ref: par. A18)</p> <p><sup>fn 7</sup> Paragraphs .40-.45 of section 205 establish limits on the use of direct assistance in an examination engagement.</p>

The Task Force proposes to include the additional phrase to provide clarity to practitioners who perform attestation engagements because, unlike the auditing standards, AT-C section 105 includes the defined term *other practitioner*. The Task Force believes this is helpful to clarify who is a member of the engagement team and who is not.

**ASB Consideration**

ASB is asked whether it agrees with the inclusion of the proposed additional phrase in the definition of *engagement team* in AT-C section 105.

Definition of “Other Practitioner”

The Task Force proposes to revise the definition of *other practitioner* in AT-C section 105 for consistent use of wording used in the defined term *component auditor* in SAS No. 149, as follows:

Definition of <i>component auditor</i> in SAS No. 149	Proposed Revision to Definition in AT-C section 105
<p><b>component auditor.</b> An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit. (Ref: par. A23–A26)</p>	<p><b>Other practitioner.</b> An independent practitioner <del>who is not a member of the engagement team</del> who performs work on information <b>attestation procedures</b> that will be used as evidence by the practitioner performing the attestation <b>on the</b> engagement. An other practitioner may be part of the practitioner’s firm, a network firm, or another firm.</p>

Consistent with the revision to the definition of *engagement team*, the Task Force proposes to delete the phrase “who is not a member of the engagement team.” The revision is for consistency with the definition of *engagement team* in SQMS No. 1.

**ASB Consideration**

ASB is asked whether it agrees with the proposed revised definition of *other practitioner*.

Using the Work of an Other Practitioner

The exposure draft of the proposed standard that was issued as SAS No. 149 included an appendix that proposed amendments to paragraph .33 of AT-C section 105. Those proposed revisions were not included in SAS No. 149. However, SAS No. 149 does include an appendix (Appendix C) that includes amendments to other AU-C sections, including AU-C section 935, *Compliance Audits*.

Paragraph .15 of AU-C section 935 is substantially the same as paragraph .33 of AT-C section 105. The Task Force proposes changes to paragraph .33 of AT-C section 105 for consistency with the SAS No. 149 revisions to AU-C section 935 with the following exceptions:

- AU-C section 935 refers to “another auditor” whereas, because it is a defined term, AT-C section 105 refers to “an other practitioner.”
- AU-C section 935 includes a separate bullet for evaluating whether the other auditor’s [practitioner’s] work is adequate for the auditor’s [practitioner’s] purposes. We are recommending that this be subsumed under the set of bullets related to involving an other practitioner as we do not think it applies to referred-to practitioners.

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With modifications for the above, the Task Force has included those revisions in the draft SSAE, as follows:



From the Exposure Draft of the Standard that Became SAS No. 149	Revisions to AU-C section 935 from SAS No. 149	Proposed Revision to AT-C section 105
<p><b>.33</b> When the practitioner expects to use the work of an other <del>another</del> practitioner, the practitioner should (Ref: par. .A59–.A60)</p> <ul style="list-style-type: none"> <li>a. <del>obtain an understanding of whether</del> <b>confirm that</b> the other practitioner understands and will comply with the <b>relevant</b> ethical requirements, <b>including those related to independence</b>, that are relevant <del>apply</del> to the engagement and, in particular, is independent.</li> <li>b. <del>obtain an understanding of</del> <b>determine that</b> the other practitioner's <b>has appropriate</b> professional competence <b>and capabilities</b>.</li> <li>c. <b>determine whether to make reference to the other practitioner in the practitioner's report.</b></li> <li>d. <b>when the practitioner involves another practitioner to perform work to provide evidence for the engagement</b> <ul style="list-style-type: none"> <li>ie. communicate clearly with the other practitioner about <b>their respective responsibilities and the practitioner's expectations, including</b> the</li> </ul> </li> </ul>	<p><b>.15</b> <i>When the auditor expects to use the work of another auditor, the auditor should (Ref: par. .A12–.A13)</i></p> <ul style="list-style-type: none"> <li>a. <b>confirm whether the other auditor understands and will comply with the relevant ethical requirements, including those related to independence, that apply to the engagement.</b></li> <li>b. <b>determine that the other auditor has appropriate professional competence and capabilities.</b></li> <li>c. <b>determine whether to make reference to the compliance audit of the other auditor in the auditor's report.</b></li> <li>d. <b>when the auditor involves another auditor to perform audit work to fulfill the requirements of this section</b> <ul style="list-style-type: none"> <li>i. <b>communicate clearly with the other auditor about the other auditor's respective responsibilities and the</b></li> </ul> </li> </ul>	<p><b>Using the Work of an Other Practitioner</b></p> <p><b>.3336</b> When the practitioner expects to use the work of an other practitioner, the practitioner should (Ref: par. .A59–.A60.<b>A65–.A66</b>)</p> <ul style="list-style-type: none"> <li>a. <del>obtain an understanding of whether</del> <b>confirm whether</b> the other practitioner understands and will comply with the <b>relevant</b> ethical requirements, <b>including those related to independence</b>, that are relevant <del>apply</del> to the engagement and, in particular, is independent.</li> <li>b. <del>obtain an understanding of</del> <b>determine that</b> the other practitioner's <b>has appropriate</b> professional competence <b>and capabilities</b>.</li> <li><del>fc.</del> <b>determine whether to make reference to the other practitioner in the practitioner's report.</b></li> <li><del>ed.</del> <b>when the practitioner involves an other practitioner to perform work to fulfill the requirements of SSAEs</b> <ul style="list-style-type: none"> <li>i. communicate clearly with the other practitioner about <b>the other practitioner's respective responsibilities and the practitioner's expectations,</b></li> </ul> </li> </ul>

From the Exposure Draft of the Standard that Became SAS No. 149	Revisions to AU-C section 935 from SAS No. 149	Proposed Revision to AT-C section 105
<p>scope and timing of the other practitioner's work and findings,</p> <p><b>ii. determine that the other auditor has sufficient time to perform assigned audit procedures, and</b></p> <p><del>iii.d. if assuming responsibility for the work of the other practitioner, be sufficiently and</del> <b>appropriately</b> involved in the work of the other practitioner.</p> <p>e. evaluate whether the other practitioner's work is adequate for the practitioner's purposes.</p>	<p><b>auditor's expectations, including the scope and timing of the other auditor's work and the matters expected to be communicated by the other auditor that are relevant to the auditor's conclusions with regard to the compliance audit;</b></p> <p><b>ii. determine that the other auditor has sufficient time to perform assigned audit procedures; and</b> <b>iii. be sufficiently and appropriately involved in the work of the other auditor.</b></p> <p><b>e. evaluate whether the other auditor's work is adequate for the auditor's purposes.</b></p>	<p><b>including</b> the scope and timing of the other practitioner's work and findings, <del>and the matters expected to be communicated by the other practitioner that are relevant to the practitioner in forming the practitioner's opinion or conclusion or in presenting findings,</del></p> <p><b>ii. determine that the other practitioner has sufficient time to perform assigned work, and</b></p> <p><del>diii. if assuming responsibility for the work of the other practitioner, be</del> <b>sufficiently and appropriately</b> involved in the work of the other practitioner.</p> <p><del>e.iv.</del> evaluate whether the other practitioner's work is adequate for the practitioner's purposes.</p>

**ASB Consideration**

ASB is asked whether it agrees with the proposed revisions to paragraph .33 of AT-C section 105.

**V. Projected Timetable for Remainder of Project**

The following is the proposed timetable leading to issuance of a final standard.

	1 <sup>st</sup> Qtr 2023	2 <sup>nd</sup> Qtr 2023	3 <sup>rd</sup> Qtr 2023	4 <sup>th</sup> Qtr 2023	1 <sup>st</sup> Qtr 2024	2 <sup>nd</sup> Qtr 2024
ASB Expected Timing		Vote to expose for public comment  (potential mid-June)	Issuance of exposure draft  (potential mid- July)  Potential comment pd end in late Sept.	Potential comment pd end in late Sept/early- mid Oct.	Discuss comment letters received	Potential vote of issuance of final SSAE.

**Agenda Items Presented:**

As indicated on the ASB meeting agenda, agenda materials 2A and 2B are the clean and tracked-from-January versions of the draft proposed QM SSAE. Agenda items 2C and 2D are provided for additional information and are optional.

- 2A** Draft proposed changes to the attestation standards - clean
- 2B** Draft proposed changes to the attestation standards – redline to reflect changes to the draft presented to the ASB in January 2023
- 2C** Document mapping requirements from SAS No. 146 and SSARS No. 26 to the proposed changes to the attestation standards
- 2D** Document indicating how the proposed changes to the attestation standards conform with the revisions to ISAE 3000 (Revised)



**Amendment to SSAE No. 18, *Attestation Standards: Clarification and Recodification*, as Amended, Section 105, *Concepts Common to All Attestation Engagements* (AICPA, Professional Standards, AT-C sec. 105)**

1. This amendment is effective for engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strike through~~.)

[No amendment to paragraphs .01–.07.]

**Relationship of Attestation Standards to Quality ~~Control~~ Management Standards**

**.08** Quality ~~control~~ **management** systems, policies, and procedures are the responsibility of the firm in conducting its attestation practice. Under ~~QM section 10A~~ **QM section 10, A Firm's System of Quality ~~Control~~ Management**, the firm has an obligation to ~~establish~~ **design, implement, and maintain** operate a system of quality ~~control~~ **management** to ~~provide it that provides the firm~~ with reasonable assurance that <sup>in 5</sup> (Ref: par. .A4–.A6)

- a. the firm and its personnel ~~comply~~ **fulfill their responsibilities in accordance** with professional standards and applicable legal and regulatory requirements **and conduct attestation engagements in accordance with such standards and requirements**, and
- b. practitioners' reports issued by the firm are appropriate in the circumstances.

<sup>in 5</sup> Paragraph .A220 of ~~QM section 10A~~, **QM section 10, A Firm's System of Quality ~~Control~~ Management**.

**.09** Attestation standards relate to the conduct of individual attestation engagements; quality ~~control~~ **management** standards relate to the conduct of a firm's attestation practice as a whole. Thus, attestation standards and quality ~~control~~ **management** standards are related, and the quality ~~control~~ **management** policies and procedures that ~~a the firm adopts~~ **establishes** may affect both the conduct of individual attestation engagements and the conduct of ~~a the~~ firm's attestation practice as a whole. However, deficiencies in or instances of noncompliance with ~~a the~~ firm's quality ~~control~~ **management** policies and procedures do not, in and of themselves, indicate that a particular engagement was not ~~performed~~ **conducted** in accordance with the attestation standards.

[No amendment to paragraphs .10–.11.]

**Definitions**

**Commented [MG1]:** These paragraphs are included as an Appendix to SAS No. 146 and are unchanged from that appendix – with an exception for the heading (which had not been revised to refer to the Quality Management Standards) and reference to QM section 10 instead of SQMS No. 1.



.12 For purposes of the attestation standards, the following terms have the meanings attributed as follows:

...

**Engagement partner.**<sup>fn 6</sup> The partner or other ~~person in~~ **individual appointed by** the firm who is responsible for the attestation engagement and its performance and for the practitioner's report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body. ~~Engagement partner, partner, and firm refer to their governmental equivalents when relevant. (Ref: par. .A17)~~

<sup>fn 6</sup> Engagement partner, partner, and firm refer to their governmental equivalents when relevant.

**Engagement quality review.** *An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.*

**Engagement quality reviewer.** *A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.*

**Engagement team.** All partners and staff performing the engagement and any **other** individuals ~~engaged by the firm or a network firm~~ who perform attestation procedures on the engagement ~~including an other practitioner but – This excludes excluding a~~ practitioner's external specialist and engagement quality control reviewer engaged by the firm or a network firm. The term **engagement team** also excludes individuals within the client's internal audit function **internal auditors** who provide direct assistance **on an engagement.**<sup>fn 7</sup> (Ref: par. A18)

<sup>fn 7</sup> Paragraphs .40-.45 of section 205 establish limits on the use of direct assistance in an examination engagement.

...

**Firm.** A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting. (Ref: par. .A20)

...

**Inspection.** *Inspection is an evaluation of the adequacy of aspects of the firm's quality management policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them.*

**Commented [MG2]:** The Task Force had included this language to incorporate the definition of *staff* (and omit the definition of *staff*) from SAS 146. At the January 2023 ASB meeting, the Board directed that the definition be consistent with SAS 146 and that the definition of *staff* from SAS 146 also be included (see below).

**Commented [MG3]:** From 3/13/23 Task Force meeting – recognizing that this phrase is not included in the corresponding definition in SAS No. 146, it is intended to provide clarity to practitioners who perform attestation engagements. If ASB prefers the proposed definition and wants consistency, a maintenance change can be made to the SAS No. 146 definition.

**Commented [MG4]:** At the January 2023 ASB meeting, the Board requested that the Task Force consider adding the application paragraph from SAS 146 that clarifies that the engagement quality reviewer is not part of the engagement team.

...

*Network. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: par. .A20)*

*Network firm. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, a firm or other entity that belongs to a network, as defined in ET section 0.400, Definitions. References to a network firm are to be read hereafter as “another firm or entity that belongs to the same network as the firm.” (Ref: par. .A20)*

...

**Other practitioner.** An independent practitioner ~~who is not a member of the engagement team who performs work on information attestation procedures that will be used as evidence by the practitioner performing the attestation on the engagement.~~ An other practitioner may be part of the practitioner’s firm, a network firm, or another firm.

**Commented [MG5]:** This phrase contradicts the definition of *engagement team* in SQMS No. 1 (and proposed revision to the definition of *engagement team* in AT-C section 105).

...

*Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.*

*Personnel. Partners and staff in the firm.*

...

*Professional standards. Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code, or by other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.*

...

*Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are subject, which consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.*

...

*Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks.*

- *Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.*
- *Procedures are actions to implement policies.*

...

*Staff. Professionals, other than partners, including any specialist the firm employs.*

...

[Subsequent footnotes renumbered. No amendment to paragraphs .13–.24.]

### Acceptance and Continuance

**.25** The engagement partner should *determine that the firm’s policies or procedures for be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and attestation engagements have been followed and should determine that conclusions reached in this regard are appropriate.* (Ref: .A37-.A38)

**.26** *The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the attestation engagement in accordance with the attestation standards and complying with the requirements of this section.* Ref: par. .A39)

**.27** *If the engagement team becomes aware of information that may have caused the firm to decline the attestation engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action.*

[Subsequent paragraphs renumbered. No amendments to renumbered paragraphs .28–34.]

### Using the Work of an Other Practitioner

**.3335** When the practitioner expects to use the work of an other practitioner, the practitioner should (Ref: par. .A59.A65-.A60.A66)

- obtain an understanding of whether confirm whether the other practitioner understands and will comply with the relevant ethical requirements, including those related to independence, that are relevant apply to the engagement and, in particular, is independent.*
- obtain an understanding of determine that the other practitioner’s has appropriate professional competence and capabilities.*

**Commented [MG6]:** Consistent with SAS 146 definition. At the January 2023 ASB meeting, the Board directed that the definition be included.

**Commented [MG7]:** Consistent with SAS 146 (see comment associated with definition of engagement team).

**Commented [MG8]:** Consistent with paragraph .22 of SAS 147 which reads:

**22.** The engagement partner should determine that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate. (Ref: par. A49–A52, A58)

**Commented [MG9]:** Added pursuant to 3/13 Task Force meeting. Consistent with paragraphs .23–.24 of SAS No. 146.

**Commented [MG10]:** Final Group Audits SAS includes an appendix (Appendix C) that includes amendments to other AU-C sections, including AU-C section 935, *Compliance Audits*. Paragraph .15 of AU-C section 935 is substantially the same as paragraph .33 of AT-C section 105. The proposed changes are for consistency with the SAS No. 148 revisions to AU-C section 935.

One exception – the heading to paragraph .15 of AU-C section 935 refers to “Another Auditor.” The term “an Other Practitioner” is retained in AT-C section 105 as the term *other practitioner* is defined in paragraph .12 of AT-C section 105.

fc. determine whether to make reference to the other practitioner in the practitioner's report.

ed. *when the practitioner involves an other practitioner to perform work to fulfill the requirements of SSAEs*

i. communicate clearly with the other practitioner about *the other practitioner's respective responsibilities and the practitioner's expectations, including the scope and timing of the other practitioner's work and findings, and the matters expected to be communicated by the other practitioner that are relevant to the practitioner in forming the practitioner's opinion or conclusion or in presenting findings,*

ii. *determine that the other practitioner has sufficient time to perform assigned work, and*

iii. *if assuming responsibility for the work of the other practitioner, be sufficiently and appropriately involved in the work of the other practitioner.*

eiv. evaluate whether the other practitioner's work is adequate for the practitioner's purposes.

**Commented [MG11]:** This is "the requirements of this section" in the changes to paragraph .15 of AT-C section 935.

**Commented [MG12]:** This is "to the auditor's conclusions with regard to the compliance audit" in the changes to paragraph .15 of AT-C section 935.

## Quality Control Management

### Assignment of the Engagement Team and the Practitioner's Specialists

.3436 The engagement partner should be satisfied *determine that*

a. *sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement (Ref: par. A69-A70)*

ab. *members of the engagement team, and any practitioner's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively, have the appropriate competence, including knowledge of the underlying subject matter and criteria, and capabilities, including sufficient time to perform the engagement. (Ref: par. A61-A62, A71-A73)*

i. *perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and*

ii. *enable the issuance of a practitioner's report that is appropriate in the circumstances.*

**Commented [MG13]:** Note – subparagraphs are in the same order as the paragraph numbers in SAS No. 146 (for continuity).

**Commented [MG14]:** Moved up from paragraph .35 to address ASB concern that the SAS 146 requirement runs to a direct action and paragraph .35 runs to "take responsibility."

Consistent with paragraph 25 of SAS 146 which reads:

**25.** The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement.

**Commented [MG15]:** For conformity with paragraph 26 of SAS 146 which reads:

**26.** The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: par. A62 and A72-A75)

**Commented [MG16]:** Retain application guidance as it is revised from extant.

**c. the nature, timing, and extent of direction, supervision, and review are**

**i. planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and**

**ii. responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm**

**d. With respect to consultation:**

**i. members of the engagement team have undertaken appropriate consultation during the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.**

**ii. the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.**

**iii. conclusions agreed have been implemented.**

**ef. to an extent that is sufficient to accept responsibility for the opinion, conclusion, or findings on the underlying subject matter or subject matter information (or assertion), the engagement team will be able to be involved in the work of**

**i. a practitioner's external specialist when the work of that specialist is to be used and (Ref: par. ~~A63~~.A74)**

**ii. an other practitioner, when the work of that practitioner is to be used.**

**ef. those involved in the engagement have been informed of their responsibilities, including the objectives of the procedures they are to perform and matters that may affect the nature, timing, and extent of such procedures.**

**g. engagement team members have been directed to bring to the engagement partner's attention significant questions raised during the engagement so that their significance may be assessed.**

**.37 If, as a result of complying with the requirements in subparagraphs .36a and .36b, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the attestation engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: par. A75-.A76)**

**Commented [MG17]:** Consistent with paragraph 30 of SAS 146 which reads:

30. The engagement partner should determine that the nature, timing, and extent of direction, supervision, and review are (Ref: par. A82–A90 and A95–A98)  
a. planned<sup>8</sup> and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and  
b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

**Commented [MG18]:** Consistent with paragraph .35b of SAS No. 146 which reads:

35. The engagement partner should do the following: (Ref: par. A100–A103)  
...

b. Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.  
c. Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.  
d. Determine that conclusions agreed have been implemented.

*.38 The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the attestation engagement.*

#### **Leadership Responsibilities for Quality in Attestation Engagements**

*.39 The engagement partner should have the appropriate competence, including knowledge of the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria. (Ref: par. .A77-.A79)*

*.3540 The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following (Ref: par. .A80):*

- a. Appropriate procedures being performed regarding the acceptance and continuance of client relationships and engagements. The overall managing and achieving quality on the engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this section to other members of the engagement team to assist the engagement partner in complying with the requirements of this section, the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team and review of their work.*
- b. The engagement being planned and performed (including appropriate direction and supervision) to comply with professional standards and applicable legal and regulatory requirements*
- c. Reviews being performed in accordance with the firm's review policies and procedures and reviewing the engagement documentation on or before the date of the practitioner's report (Ref: par. .A64)*
- b. Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives and that the engagement was performed in accordance with the attestation standards and relevant legal and regulatory requirements. The direction and supervision of the members of the engagement team and the review of their work*
- ec. Appropriate consultation being undertaken by the engagement team on difficult or contentious matters. The engagement team undertaking consultation on*

**Commented [MG19]:** Added pursuant to Task Force discussion on 3/13. Consistent with paragraphs .27-.28 of SAS No. 146.

**Commented [MG20]:** Included to incorporate concepts from paragraph .10 of the March 2023 draft of the proposed ISSA 5000, which reads as follows:

10. The engagement leader shall have: (Ref: Para. A24-A27)

- Competence in assurance skills and techniques developed through extensive training and practical application;
- An understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement; and
- Sufficient competence in the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria.

Combined the first and third bullets as the defined term "assurance skills" is not used in the attestation standards. The middle bullet is included below under "Compliance With Relevant Ethical Requirements."

**Commented [MG21]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

**Commented [MG22]:** Consistent with paragraph .13 of SAS No. 146 which reads:

13. The engagement partner should take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that

**Commented [MG23]:** Consistent with paragraph .15 of SAS 146 which reads:

**Commented [MG24]:** This was moved up from a bullet that has been moved to paragraph .34.

**Commented [MG25]:** Consistent with paragraph .15 of SAS 146 which reads:

**Commented [MG26]:** Deleted as the paragraph was a repeat of paragraph .25.

**Commented [MG27]:** Moved to paragraph .34.

**Commented [MG28]:** Consistent with paragraph .29 of SAS No. 146 which reads:

**Commented [MG29]:** Moved to paragraph .34.



(i) *difficult or contentious matters and matters on which the firm's policies or procedures require consultation and*

(ii) *other matters that, in the engagement partner's professional judgment, require consultation.*

**.41 In an examination or review engagement, the engagement partner should review engagement documentation at appropriate points in time during the engagement, including documentation relating to:**

**a. significant matters;**

**b. significant judgments, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and**

**c. other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.**

**.42 In an examination or review engagement, on or before the date of the practitioner's report, the engagement partner should determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the practitioner's report to be issued.**

**.43 Prior to dating the practitioner's report, the engagement partner should review practitioner's report and related engagement documentation, to determine that the report to be issued will be appropriate in the circumstances.**

**.44 The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. .A81)**

#### **Compliance With Relevant Ethical Requirements**

**.3645 Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action. The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the engagement. (Ref: par. .A82 and .A86)**

**.46 The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the**

**Commented [MG30]:** Consistent with paragraph .31 of SAS No. 146:

**31.** The engagement partner should review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to (Ref: par. A91–A94)

a. significant matters;

b. significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and

c. other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

**Commented [MG31]:** Consistent with paragraph .32 of SAS No. 146, which reads:

**32.** On or before the date of the auditor's report, the engagement partner should determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: par. A91–A95)

**Commented [MG32]:** Consistent with paragraph .33 of SAS No. 146, which reads:

**33.** Prior to dating the auditor's report, the engagement partner should review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.

Excluded review of subject matter.

**Commented [MG33]:** Consistent with paragraph .34 of SAS No. 146, which reads:

**34.** The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. A99)

**Commented [MG34]:** This section is consistent with paragraphs .16–.21 of SAS No. 146, which read as follows:

**16.** The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: par. A38–A42 and A48)

**Commented [MG35]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

*nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. .A83-.A84)*

- a. *Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence*
- b. *Circumstances that may cause a breach of relevant ethical requirements, including those related to independence and the responsibilities of members of the engagement team when they become aware of breaches*
- c. *The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity*

*.47 If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should evaluate the threats by complying with the firm's policies or procedures, using relevant information from the firm, the engagement team, or other sources; and take appropriate action.*

*.48 The engagement partner should remain alert throughout the engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team*

*.49 If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. .A85)*

*.50 Prior to dating the practitioner's report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.*

#### **Monitoring and Remediation**

*.51 The engagement partner should take responsibility for the following: (Ref: par. A87)*

- a. *Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms*
- b. *Determining the relevance and effect on the engagement of the information referred to in subparagraph a and taking appropriate action*
- c. *Remaining alert throughout the engagement for information that may be relevant to the firm's monitoring and remediation process and communicating such information to those responsible for the process*

**Commented [MG36]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

**Commented [MG37]:** Consistent with paragraph .17 of SAS No. 146 which reads:

**17.** The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)

- a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence
- b. Circumstances that may cause a breach of relevant ethical requirements, including those related to

**Commented [MG38]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

**Commented [MG39]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

**Commented [MG40]:** Consistent with paragraph .20 of SAS No. 146 which reads:

**20.** If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical

**Commented [MG41]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

**Commented [MG42]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain differences with the corresponding SAS No. 146 requirement.

**Commented [MG43]:** Consistent with paragraph .39 of SAS No. 146, which reads as follows:

**39.** The engagement partner should take responsibility for the following: (Ref: par. A110–A113)

[Subsequent paragraphs renumbered. No amendments to renumbered paragraphs .52–59.]

## Engagement Quality Control Review

**.4560** For those engagements, ~~if any,~~ for which the firm has determined that an engagement quality control review is required, *the engagement partner should* (Ref: par. ~~.A67~~**.A90**)

- a. *determine that an engagement quality reviewer has been appointed.*
- b. *the engagement quality control reviewer should perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. This evaluation should include the following: cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.*
  - i. ~~Discussion of significant findings or issues with the engagement partner~~
  - ii. ~~Reading the written subject matter information (or assertion) and the proposed report~~
  - iii. ~~Reading selected engagement documentation relating to the significant judgments the engagement team made and the related conclusions it reached~~
  - iv. ~~Evaluation of the decisions reached in formulating the report and consideration of whether the proposed report is appropriate~~
- ~~ac.~~ *the engagement partner should take responsibility for discussing with the engagement quality control reviewer significant **matters and significant judgments** findings or issues arising during the engagement, including those identified during the engagement quality control review, **with the engagement quality reviewer,** and should not release the practitioner's report until completion of the engagement quality control review and*
- d. *not release the practitioner's report until completion of the engagement quality review*

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .61–.62.]

## Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A16.]

## Definitions

...

**Commented [MG44]:** For consistency with paragraph .36 of SAS No. 146 which reads as follows:

**36.** For audit engagements for which an engagement quality review is required, the engagement partner should (Ref: par. A104)

a. *determine that an engagement quality reviewer has been appointed.*

b. *cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.*

c. *discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer.*

d. *not release the auditor's report until the completion of the engagement quality review. (Ref: par. A105–A107)*

**Engagement Partner (Ref: par. .12)**

**.A17 Practitioners are subject to Appendix B to the AICPA Code of Professional Conduct, “Council Resolution Concerning the Form of Organization and Name Rule,” which states that there must be a CPA who has ultimate responsibility for all engagements performed in accordance with SSAEs, and non-CPA owners could not assume ultimate responsibility for any such engagements. Law or regulation may include additional requirements.**

**Engagement Team (Ref: par. .12)**

**.A18 If the attestation engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.**

[Subsequent paragraph renumbered. No amendment to renumbered paragraph .A19.]

**Firm, Network, and Network Firm (Ref: par. .12)**

**.A20 The definitions of firm, network, or network firm in relevant ethical requirements may differ from those set out in this section. The AICPA code also provides guidance in relation to the terms network and network firm. Networks and other network firms may be structured in a variety of ways and are, in all cases, external to the firm. The provisions in this section in relation to networks also apply to any structures or organizations that do not form part of the firm but that exist within the network.**

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A21–.A36.]

**Acceptance and Continuance (Ref: par. .25–.26)**

**.A37 Under SQMS No. 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and attestation engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.**

**.A38 If the engagement partner is directly involved throughout the firm’s acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also**

**Commented [MG45]:** Consistent with paragraph .A51 of SAS 145 (and .A28 of March 2023 draft of proposed ISSA 5000):

**A51.** Under SQMS No. 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

*provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.*

*.A39 In circumstances in which the firm is obligated by law or regulation to accept or continue an attestation engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.*

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A40–.A64.]

### Using the Work of an Other Practitioner (Ref: par. .3335)

*.A59A65 The practitioner is responsible for (a) the direction, supervision, and performance of the engagement in compliance with professional standards; applicable regulatory and legal requirements; and the firm's policies and procedures and (b) determining whether the practitioner's report that is issued is appropriate in the circumstances. The practitioner may, however, use the work of other practitioners to obtain sufficient appropriate evidence to express an opinion, conclusion, or findings on the subject matter information (or assertion). Paragraph .34a of this section requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. Accordingly, the practitioner may involve an other practitioner to perform attestation work to fulfill the requirements of the SSAEs. The engagement partner may also determine to use work completed by an other practitioner or to make reference to the other practitioner in the practitioner's report.*

*.A60A66 The engagement partner may decide to assume responsibility for the work of the other practitioner or to make reference to the other practitioner in the practitioner's report. Regardless of whether the practitioner uses the work of an other practitioner engagement partner decides to assume responsibility or (including making make reference to the other practitioner in the practitioner's report), the engagement partner remains ultimately responsible, and therefore, accountable, for compliance with the requirements of the SSAEs. the practitioner is required to communicate clearly with the other practitioner and evaluate whether the other practitioner's work is adequate for the purposes of the engagement. The nature, timing, and extent of this involvement are affected by the practitioner's understanding of the other practitioner, such as previous experience with, or knowledge of, the other practitioner and the degree to which the engagement team and the other practitioner are subject to common quality control policies and procedures.*

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A67–.A68.]

### Quality Control Management

Engagement Resources (Ref: par. .36a)

**Commented [MG46]:** Consistent with paragraph .A52 of SAS No. 146 (and paragraph .A29 of March 2023 draft of proposed ISSA 5000):

**A52.** If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

**Commented [MG47]:** Consistent with paragraph .A56 of SAS No. 146 (and paragraph .A30 of the March 2023 draft of the proposed ISSA 500):

**A56.** In circumstances in which the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

**Commented [MG48]:** Paragraph .13 of AU-C section 935 as amended by SAS No. 138 reads as follows:

*.A13 Regardless of whether the auditor uses the work of another auditor (including making reference to the compliance audit of another auditor in the auditor's report) as a basis for forming an opinion at the level specified by the governmental audit requirement, the engagement partner remains ultimately responsible and, therefore, accountable for compliance with the requirements of this section. SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors), adapted as necessary in the circumstances, may be useful in fulfilling the requirements in paragraph .15 of this section when using the work of another auditor.*



**.A69 Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, where applicable, a practitioner's external expert. Technological resources include technological tools that may allow the practitioner to more effectively and efficiently manage the engagement. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programs, templates, checklists or forms.**

Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. .36a)

**.A70 In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm's related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation, and maintenance programs when using firm-approved technology to perform attestation procedures.**

**Assignment of the Engagement Team and the Practitioner's Specialists (Ref: par. .36b and e)**

**.A61.A71** The practitioner may obtain knowledge about the specific underlying subject matter to which the procedures are to be applied and the criteria through formal or continuing education, practical experience, or consultation with others.

**.A62.A72** When considering **determining that the engagement team has** the appropriate competence and capabilities **expected of those involved in the engagement**, the engagement partner may take into consideration such matters as **their the team's**

- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- technical expertise, including expertise with relevant in IT **used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement** and specialized areas relevant to the underlying subject matter.
- knowledge of relevant industries in which the entity operates.
- ability to **apply exercise professional skepticism and** professional judgment.
- understanding of the firm's **quality control policies and or** procedures.

**.A64.A73** Under **QM section 10A.QM section 10**, the firm **is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. QM section 10 also requires that such direction, supervision, and review be planned and performed on the basis that the work**

**Commented [MG49]:** This is a direct lift from paragraph .A35 of the March 2023 draft of the proposed ISSA 5000. This is similar to paragraphs .A62-.A63 from SAS No. 146 but is more summarized:

#### **Human Resources**

**A62.** Human resources include members of the engagement team (see also paragraphs A5 and A15–A21) and, when applicable, an auditor's external specialist and individuals from within the entity's internal audit function who provide direct assistance on the audit.

#### **Technological Resources**

**A63.** The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological resources may include tools that allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of t...

**Commented [MG50]:** Consistent with paragraph .A70 in SAS No. 146 (without the reference to paragraph .A6 which is not included in the proposed revisions to AT-C section 105) as well as the March 2023 draft of proposed ISSA 5000:

#### **Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. .25)**

**A70.** In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation, and maintenance programs when using firm-approved technology to perform audit procedures.

**Commented [MG51]:** Consistent with paragraph A72 of SAS 146 which reads:

A72. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's

- understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- expertise in specialized areas of accounting or auditing.
- expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.



*performed by less experienced members of the engagement team be directed, supervised, and reviewed by more experienced team members. review the work of other team members. The engagement partner may delegate part of the review responsibility to other members of the engagement team, in accordance with the firm's system of quality control.*

**.A63A74** Some of the attestation work may be performed by a multidisciplinary team that includes one or more practitioner's specialists. For example, in an examination engagement, a practitioner's specialist may be needed to assist the practitioner in obtaining an understanding of the underlying subject matter, criteria, and other engagement circumstances or in assessing or responding to the risk of material misstatement.

Insufficient or Inappropriate Resources (Ref: par. 37)

**.A75** *The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this section and the nature and circumstances of the engagement. In certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph .37 and paragraph 51c. For example, if an attestation software program provided by the firm has not incorporated new or revised procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement.*

**.A76** *If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:*

- *Changing the planned approach to the nature, timing, and extent of direction, supervision, and review*
- *Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation*
- *Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the engagement*
- *Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation*

**Commented [MG52]:** Consistent with paragraph .A82 of SAS No. 146.

**Commented [MG53]:** End result is juxtaposition of extant paragraphs .A63 and .A64 for continuity with revisions in the requirement paragraphs.

**Commented [MG54]:** Consistent with paragraph .A78 of SAS No. 146 (and paragraph .A44 of the March 2023 draft of the proposed ISSA 5000):

**A78.** The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this SAS and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39c. For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

**Commented [MG55]:** Consistent with paragraph .A79 of SAS No. 146 (and paragraph .A46 of the March 2023 draft of the proposed ISSA 5000):

**A79.** If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:

- Changing the planned approach to the nature, timing, and extent of direction, supervision, and review (see also paragraph A94)
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement

**Leadership Responsibilities for Quality in Attestation Engagements (Ref: par. .39e-.40 and .44)**

**A77 Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality Management requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements.**

**A78 The engagement partner is required to have sufficient competence in the underlying subject matter to be able to:**

- (a) When needed, ask appropriate questions of a practitioner's specialist and evaluate whether the answers make sense in the engagement circumstances;**
- (b) Evaluate a practitioner's specialist's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and**
- (c) Take responsibility for the conclusions reached on the engagement**

**A79 What constitutes sufficient knowledge of the underlying subject matter and its measurement or evaluation depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement partner has sufficient knowledge of the underlying subject matter and its measurement or evaluation in order to accept responsibility for the opinion, conclusion, or findings is a matter of professional judgment for the engagement partner, and may involve taking account of factors such as:**

- (a) The nature and complexity of the underlying subject matter and its measurement or evaluation;**
- (c) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter; and**
- (c) The engagement partner's and engagement team's competence and previous experience in relation to the underlying subject matter.**

**A80 Being sufficiently and appropriately involved throughout the attestation engagement when procedures, tasks, or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including the following:**

**Commented [MG56]:** Consistent with paragraph .A24 of the March 2023 draft of the proposed ISSA 5000:

A24. ISQM 1 requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement leader, who have appropriate competence and capabilities to consistently perform quality engagements

**Commented [MG57]:** Consistent with paragraph .A25 of the March 2023 draft of the proposed ISSA 5000:

A25. The engagement leader is required to have sufficient competence in the underlying subject matter, in addition to having competence in assurance skills and techniques, to be able to:

- (a) When needed, ask appropriate questions of a practitioner's expert and evaluate whether the answers make sense in the engagement circumstances;
- (b) Evaluate a practitioner's expert's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
- (c) Take responsibility for the conclusions reached on the engagement.

Except in lead-in, does not refer to "assurance skills and techniques"

**Commented [MG58]:** Consistent with paragraph .A26 of the March 2023 draft of the proposed ISSA 5000:

A26. What constitutes sufficient subject matter competence depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement leader has sufficient subject matter competence in order to accept responsibility for the assurance conclusion is a matter of professional judgment for the engagement leader, and may involve taking account of factors such as:

- (a) The judgment involved in identifying the reporting topics for inclusion in the entity's sustainability information;
- (b) The judgment involved in agreeing the sustainability information that is within the scope of the assurance engagement;
- (c) The nature and complexity of the underlying subject matter and its measurement or evaluation;
- (d) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter; and

- *Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof, and providing any other necessary instructions and relevant information*
- *Directing and supervising the assignees*
- *Reviewing the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 38c, 40b, and 41-44 of this section.*

**.A81** *The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the engagement.*

#### *Compliance With Relevant Ethical Requirements*

Relevant Ethical Requirements (Ref: par. 45)

**.A82** *Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in*

- *drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the attestation engagement, and*
- *keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.*

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. 46)

**.A83** *Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the engagement. Engagement team members from another firm are neither partners nor staff of the engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to those of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.*

**Commented [MG59]:** Consistent with paragraph .A99 of SAS No. 146 (and paragraph .A60 of the March 2023 draft of the proposed ISSA 5000):

**A99.** The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

**Commented [MG60]:** Consistent with paragraph .A42 of SAS No. 146 (and paragraph .A31 of the March 2023 draft of the proposed ISSA 5000):

**A42.** Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in

- drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement, and

- keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

**Commented [MG61]:** Consistent with paragraph .A23 of SAS No. 146 (and .A23A of the March 2023 draft of the proposed ISSA 5000):

**A23.** Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. Engagement team members from another firm are neither partners nor staff of the engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to those of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.

Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 46)

**.A84 In accordance with SQMS No. 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.**

Taking Appropriate Action (Ref: par. 49)

**.A85 Examples of appropriate actions may include the following:**

- **Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.**
- **Communicating with those charged with governance.**
- **Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.**
- **Seeking legal advice.**
- **Withdrawing from the engagement when withdrawal is possible under applicable law or regulation.**

Considerations Specific to Governmental Audit Organizations (Ref: par. .45)

**.A86 Law or regulation may provide safeguards for the independence of governmental organizations and the practitioners they employ. However, in the absence of law or regulation, governmental organizations may establish supplemental safeguards to assist the practitioner or organization in maintaining independence. Additionally, when law or regulation does not permit withdrawal from the engagement, the practitioner may disclose in the practitioner's report the circumstances affecting the practitioner's independence.**

**Monitoring and Remediation (Ref: par. .51)**

**.A87 In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that**

**Commented [MG62]:** Consistent with paragraph .A43 of SAS No. 146 (and paragraph .A33 of the March 2023 draft of proposed ISSA 5000):

**Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 17–18)**

**A43.** In accordance with SQMS No. 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.

**Commented [MG63]:** Consistent with paragraph .A46 of SAS No. 146 (and paragraph .A35 of the March 2023 draft of the proposed ISSA 5000):

**A46.** Examples of appropriate actions may include the following:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement when withdrawal is possible under applicable law or regulation.

- *a practitioner's specialist is needed or*
- *the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the engagement where deficiencies have been identified.*

*If an identified deficiency does not affect the quality of the engagement (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.*

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A88–.A89.]

#### **Engagement Quality Control Review (Ref: par. .4560)**

##### **Engagement Quality Review**

*.A90 SQMS No. 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with SQMS No. 2, Engagement Quality Reviews,<sup>fn 11</sup> and requiring an engagement quality review for certain types of engagements.<sup>fn 12</sup> SQMS No. 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.*

<sup>fn 11</sup> SQMS No. 2, Engagement Quality Reviews.

<sup>fn 12</sup> Paragraph .35f of SQMS No. 1.

~~.A67.A85 Other matters that may be considered in an engagement quality control review include the following:~~

- ~~The engagement team's evaluation of the firm's independence in relation to the engagement~~
- ~~Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations~~
- ~~Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached~~

[Subsequent paragraphs further renumbered. No further amendment to section 105.]

**Commented [MG64]:** Consistent with paragraph .A112 of SAS No. 146 (and paragraph .A61 of March 2023 draft of the proposed ISSA 5000):

**A112.** In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that

•an auditor's specialist is needed or

•the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.

**Amendment to SSAE No. 19, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, AT-C sec. 215)**

2. This amendment is effective for agreed-upon procedures engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

**(*Boldface italics* denotes new language. Deleted text is shown in ~~strike through~~.)**

[No amendment to paragraphs .01–.41.]

**Documentation**

**.42** The practitioner should prepare engagement documentation on a timely basis that includes the following: (Ref: par. .A75–.A76)

- a. The written agreement and acknowledgment from the engaging party regarding the appropriateness of the procedures performed for the intended purpose of the engagement, as required by paragraph .22
- b. The nature, timing, and extent of the procedures performed to comply with relevant sections and applicable legal and regulatory requirements, including the following:
  - i. The identifying characteristics of the specific items or matters tested
  - ii. Who performed the engagement work and the date such work was completed
  - iii. When the appropriate party will not provide one or more of the requested written representations pursuant to paragraphs .27–.28 or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the matters in paragraph .30a–c
  - iv. Who reviewed the engagement work performed and the date and extent of such review
- c. The results of the procedures performed and the evidence obtained
- d. ***If the agreed-upon procedures engagement is subject to an engagement quality review***
  - i. ***the identity of the engagement quality reviewer for the engagement and the date and extent of such review and***



- ii. *that the engagement quality review has been completed before the release of the practitioner's agreed-upon procedures report*

[No further amendment to section 215.]

**Amendment to SSAE No. 21, *Direct Examination Engagements*, Section 205, *Assertion-Based Examination Engagements* (AICPA, *Professional Standards*, AT-C sec. 205)**

- 3. This amendment is effective for examination engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

**(*Boldface italics* denotes new language. Deleted text is shown in ~~strike through~~.)**

[No amendment to paragraphs .01–.88.]

**Documentation**

**.89** The practitioner should prepare engagement documentation that is sufficient to determine the following: (Ref: par. A127–.A130)

- a. The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including the following:
  - i. The identifying characteristics of the specific items or matters tested
  - ii. Who performed the engagement work and the date such work was completed
  - iii. The discussions with the responsible party or others about findings or issues that, in the practitioner's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place
  - iv. When the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations or that the written representations are otherwise not reliable, the matters in paragraph .56
  - v. When the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .51, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .51, in accordance with paragraph .52

- vi. Who reviewed the engagement work performed and the date and extent of such review
- vii. If the practitioner identified information that is inconsistent with the practitioner's final opinion regarding a significant matter, how the practitioner addressed the inconsistency
- b. The results of the procedures performed and the evidence obtained
- c. *If the examination engagement is subject to an engagement quality review*
  - i. *the identity of the engagement quality reviewer for the engagement and the date and extent of such review and*
  - ii. *that the engagement quality review has been completed before the release of the practitioner's examination report*

[No further amendment to section 205.]

**Amendment to SSAE No. 22, Review Engagements (AICPA, Professional Standards, AT-C sec. 210)**

4. This amendment is effective for review engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

**(*Boldface italics* denotes new language. Deleted text is shown in ~~striketrough~~.)**

[No amendment to paragraphs .01–.64.]

**Documentation**

**.65** The practitioner should prepare engagement documentation that is sufficient to determine the following: (Ref: par. .A106–.A109)

- a. The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including the following:
  - i. The identifying characteristics of the specific items or matters tested
  - ii. Who performed the engagement work and the date such work was completed
  - iii. The discussions with the responsible party or others about findings or issues that, in the practitioner's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place

- iv. When the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the matters in paragraph .38
  - v. When the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .33, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .33, in accordance with paragraph .34
  - vi. Who reviewed the engagement work performed and the date and extent of such review
  - vii. If the practitioner identified information that is inconsistent with the practitioner's final conclusion regarding a significant matter, how the practitioner addressed the inconsistency
- b. The results of the procedures performed and the review evidence obtained
- c. *If the review engagement is subject to an engagement quality review*
- i. *the identity of the engagement quality reviewer for the engagement and the date and extent of such review and*
  - ii. *that the engagement quality review has been completed before the release of the practitioner's review report*

[No further amendment to section 210.]



**Amendment to SSAE No. 18, *Attestation Standards: Clarification and Recodification*, as Amended, Section 105, *Concepts Common to All Attestation Engagements* (AICPA, Professional Standards, AT-C sec. 105)**

1. This amendment is effective for engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strike through~~.)

[No amendment to paragraphs .01–~~.05~~.07.]

**Relationship of Attestation Standards to Quality ~~Control~~ Management Standards**

~~.0608~~ Quality ~~control~~ **management** systems, policies, and procedures are the responsibility of the firm in conducting its attestation practice. Under ~~QM section 10A~~ **QM section 10, A Firm's System of Quality ~~Control~~ Management**, the firm has an obligation to ~~establish~~ **design, implement, and maintain** operate a system of quality ~~control~~ **management** to provide it that provides the firm with reasonable assurance that <sup>fin 5</sup> (Ref: par. .A4–.A6)

- a. the firm and its personnel ~~comply~~ **fulfill their responsibilities in accordance** with professional standards and applicable legal and regulatory requirements **and conduct attestation engagements in accordance with such standards and requirements**, and
- b. practitioners' reports issued by the firm are appropriate in the circumstances.

<sup>fin 5</sup> Paragraph .1220 of ~~QM section 10A~~, **QM section 10, A Firm's System of Quality ~~Control~~ Management**.

~~.0709~~ Attestation standards relate to the conduct of individual attestation engagements; quality ~~control~~ **management** standards relate to the conduct of a firm's attestation practice as a whole. Thus, attestation standards and quality ~~control~~ **management** standards are related, and the quality ~~control~~ **management** policies and procedures that ~~a the firm adopts~~ **establishes** may affect both the conduct of individual attestation engagements and the conduct of ~~a the~~ firm's attestation practice as a whole. However, deficiencies in or instances of noncompliance with ~~a the~~ firm's quality ~~control~~ **management** policies and procedures do not, in and of themselves, indicate that a particular engagement was not ~~performed~~ **conducted** in accordance with the attestation standards.

[No amendment to paragraphs ~~.08–.09~~.10–.11.]

**Definitions**

**Commented [MG1]:** These paragraphs are included as an Appendix to SAS No. 146 and are unchanged from that appendix – with an exception for the heading (which had not been revised to refer to the Quality Management Standards) and reference to QM section 10 instead of SQMS No. 1.

**.1012** For purposes of the attestation standards, the following terms have the meanings attributed as follows:

...

**Engagement partner.**<sup>fn 6</sup> The partner or other ~~person in~~ *individual appointed by* the firm who is responsible for the attestation engagement and its performance and for the practitioner's report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body. ~~Engagement partner, partner, and firm refer to their governmental equivalents when relevant. (Ref: par. .A17)~~

<sup>fn 6</sup> Engagement partner, partner, and firm refer to their governmental equivalents when relevant.

**Engagement quality review.** *An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.*

**Engagement quality reviewer.** *A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.*

**Engagement team.** All partners and staff ~~including any specialist the firm employs,~~ performing the engagement and any *other* individuals engaged by the firm or a network firm who perform attestation procedures on the engagement ~~including an other practitioner but – This excludes excluding~~ a practitioner's external specialist and engagement quality control reviewer engaged by the firm or a network firm. The term ~~engagement team also excludes individuals within the client's internal audit function~~ *internal auditors* who provide direct assistance *on an engagement.*<sup>fn 7</sup> (Ref: par. A18)

<sup>fn 7</sup> Paragraphs .40-.45 of section 205 establish limits on the use of direct assistance in an examination engagement.

...

**Firm.** A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting. (Ref: par. .A19A20)

...

**Inspection.** *Inspection is an evaluation of the adequacy of aspects of the firm's quality management policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them.*

**Commented [MG2]:** The Task Force had included this language to incorporate the definition of *staff* (and omit the definition of *staff*) from SAS 146. At the January 2023 ASB meeting, the Board directed that the definition be consistent with SAS 146 and that the definition of *staff* from SAS 146 also be included (see below).

**Commented [MG3]:** From 3/13/23 Task Force meeting – recognizing that this phrase is not included in the corresponding definition in SAS No. 146, it is intended to provide clarity to practitioners who perform attestation engagements. If ASB prefers the proposed definition and wants consistency, a maintenance change can be made to the SAS No. 146 definition.

**Commented [MG4]:** At the January 2023 ASB meeting, the Board requested that the Task Force consider adding the application paragraph from SAS 146 that clarifies that the engagement quality reviewer is not part of the engagement team.

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...

*Network. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: par. [.A19A20](#))*

*Network firm. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, ~~A~~ a firm or other entity that belongs to a network, ~~as defined in ET section 0.400, Definitions.~~ References to a network firm are to be read hereafter as “another firm or entity that belongs to the same network as the firm.” (Ref: par. [.A19A20](#))*

...

*Other practitioner. An independent practitioner who is not a member of the engagement team who performs work on information attestation procedures that will be used as evidence by the practitioner performing the attestation on the engagement. An other practitioner may be part of the practitioner’s firm, a network firm, or another firm.*

...

*Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.*

*Personnel. Partners and staff in the firm.*

...

*Professional standards. Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code, or by other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.*

...

*Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are subject, which*

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Commented [MG5]: This phrase contradicts the definition of *engagement team* in SQMS No. 1 (and proposed revision to the definition of *engagement team* in AT-C section 105).

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*consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.*

*Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks.*

- Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.*
- Procedures are actions to implement policies.*

*Staff. Professionals, other than partners, including any specialist the firm employs.*

**Commented [MG6]:** Consistent with SAS 146 definition. At the January 2023 ASB meeting, the Board directed that the definition be included.

**Commented [MG7]:** Consistent with SAS 146 (see comment associated with definition of *engagement team*).

[Subsequent footnotes renumbered. No amendment to paragraphs .11–.13–.24.]

## Acceptance and Continuance

*.25 The engagement partner should determine that the firm's policies or procedures for be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and attestation engagements have been followed and should determine that conclusions reached in this regard are appropriate. (Ref: .A37-.A38).*

*.26 The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the attestation engagement in accordance with the attestation standards and complying with the requirements of this section. Ref: par. .A39)*

*.27 If the engagement team becomes aware of information that may have caused the firm to decline the attestation engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action.*

**Commented [MG8]:** Consistent with paragraph .22 of SAS 147 which reads:

**22.** The engagement partner should determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate. (Ref: par. A49–A52, A58)

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**Commented [MG9]:** Added pursuant to 3/13 Task Force meeting. Consistent with paragraphs .23–.24 of SAS No. 146.

**Commented [MG10]:** Final Group Audits SAS includes an appendix (Appendix C) that includes amendments to other AU-C sections, including AU-C section 935, *Compliance Audits*. Paragraph .15 of AU-C section 935 is substantially the same as paragraph .33 of AT-C section 105. The proposed changes are for consistency with the SAS No. 148 revisions to AU-C section 935.

One exception – the heading to paragraph .15 of AU-C section 935 refers to "Another Auditor." The term "an Other Practitioner" is retained in AT-C section 105 as the term *other practitioner* is defined in paragraph .12 of AT-C section 105.

[Subsequent paragraphs renumbered. No amendments to renumbered paragraphs .28–.34. No amendment to paragraphs .26–.33.]

## Using the Work of an Other Practitioner

*.33.5 When the practitioner expects to use the work of an other practitioner, the practitioner should (Ref: par. .A59.A65-.A60.A66)*

- a. obtain an understanding of whether confirm whether the other practitioner understands and will comply with the relevant ethical requirements, including*

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those related to independence, that ~~are relevant~~ apply to the engagement and, in particular, is independent.

b. ~~obtain an understanding of~~ **determine that** the other practitioner's **has appropriate** professional competence **and capabilities**.

~~f.~~ determine whether to make reference to the other practitioner in the practitioner's report.

~~e.~~ **d.** when the practitioner involves an other practitioner to perform work to fulfill the requirements of SSAEs

i. communicate clearly with the other practitioner about **the other practitioner's respective responsibilities and the practitioner's expectations, including** the scope and timing of the other practitioner's work ~~and findings~~ **and the matters expected to be communicated by the other practitioner that are relevant to the practitioner in forming the practitioner's opinion or conclusion or in presenting findings**.

ii. **determine that the other practitioner has sufficient time to perform assigned work, and**

~~iii.~~ **iii.** ~~if assuming responsibility for the work of the other practitioner, be sufficiently and appropriately involved in the work of the other practitioner.~~

~~iv.~~ **iv.** evaluate whether the other practitioner's work is adequate for the practitioner's purposes.

**Commented [MG11]:** This is "the requirements of this section" in the changes to paragraph .15 of AT-C section 935.

**Commented [MG12]:** This is "to the auditor's conclusions with regard to the compliance audit" in the changes to paragraph .15 of AT-C section 935.

**Commented [MG13]:** Moved to e because SAS No. 149 says that for referred-to auditors, the group auditor is not required to be involved in their work or direct and supervise them so only the things in a and b are applicable to both referred to and component (paragraph 51 and 52 of SAS 149).

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**Commented [MG14]:** Note – subparagraphs are in the same order as the paragraph numbers in SAS No. 146 (for continuity).

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**Commented [MG15]:** Moved up from paragraph .35 to address ASB concern that the SAS 146 requirement runs to a direct action and paragraph .35 runs to "take responsibility."

Consistent with paragraph 25 of SAS 146 which reads:

**25.** The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement.

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## Quality ~~Control~~ Management

### Assignment of the Engagement Team and the Practitioner's Specialists

~~34~~**36** The engagement partner should ~~be satisfied~~ **determine** that

a. **sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement (Ref: par. A69-.A70)**

~~a.~~ **b.** ~~members of~~ the engagement team, and any practitioner's external specialists **and internal auditors who provide direct assistance who are not part of the engagement team**, collectively, have the appropriate competence, including knowledge of the underlying subject matter and criteria, and capabilities,

*including sufficient time to perform the engagement.* (Ref: par. ~~A61-A62, A63, A71-A64, A73~~)

- i. ~~perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and~~
- ii. ~~enable the issuance of a practitioner's report that is appropriate in the circumstances.~~

c. the nature, timing, and extent of direction, supervision, and review are

- i. planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and
- ii. responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm

d. With respect to consultation:

- i. Determining that members of the engagement team have undertaken appropriate consultation during the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.
- iii. Determining that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.
- ivii. Determining that conclusions agreed have been implemented.

~~be~~ to an extent that is sufficient to accept responsibility for the opinion, conclusion, or findings on the underlying subject matter or subject matter information (or assertion), the engagement team will be able to be involved in the work of

- i. a practitioner's external specialist when the work of that specialist is to be used and (Ref: par. ~~A63, A65, A74~~)
- ii. an other practitioner, when the work of that practitioner is to be used.

~~ef~~ those involved in the engagement have been informed of their responsibilities, including the objectives of the procedures they are to perform and matters that may affect the nature, timing, and extent of such procedures.

~~dg~~ engagement team members have been directed to bring to the engagement partner's attention significant questions raised during the engagement so that their significance may be assessed.

**Commented [MG16]:** For conformity with paragraph 26 of SAS 146 which reads:

**26.** The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: par. A62 and A72–A75)

**Commented [MG17]:** Retain application guidance as it is revised from extant.

**Commented [MG18]:** Consistent with paragraph 30 of SAS 146 which reads:

**30.** The engagement partner should determine that the nature, timing, and extent of direction, supervision, and review are (Ref: par. A82–A90 and A95–A98)  
a. planned<sup>8</sup> and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and  
b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

**Commented [MG19]:** Consistent with paragraph .35b of SAS No. 146 which reads:

**35.** The engagement partner should do the following: (Ref: par. A100–A103)  
...

b. Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.  
c. Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.  
d. Determine that conclusions agreed have been implemented.

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.37 If, as a result of complying with the requirements in subparagraphs .36a and .36b, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the attestation engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: par. A75-.A76)

.38 The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the attestation engagement.

#### **Leadership Responsibilities for Quality in Attestation Engagements**

.39 The engagement partner should have the appropriate competence, including knowledge of the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria. (Ref: par. A77-.A79)

.3540 The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following (Ref: par. A66-.A71A80):

a. Appropriate procedures being performed regarding the acceptance and continuance of client relationships and engagements. The overall managing and achieving quality on the engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this section to other members of the engagement team to assist the engagement partner in complying with the requirements of this section, the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team and review of their work.

a.b. The engagement being planned and performed (including appropriate direction and supervision) to comply with professional standards and applicable legal and regulatory requirements. Determining that the firm's policies or procedures for the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate

b.c. Reviews being performed in accordance with the firm's review policies and procedures and reviewing the engagement documentation on or before the date of

**Commented [MG20]:** Added pursuant to Task Force discussion on 3/13. Consistent with paragraphs .27-.28 of SAS No. 146.

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**Commented [MG21]:** Included to incorporate concepts from paragraph .10 of the March 2023 draft of the proposed ISSA 5000, which reads as follows:

10. The engagement leader shall have: (Ref: Para. A24-A27)

- Competence in assurance skills and techniques developed through extensive training and practical application;
- An understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement; and
- Sufficient competence in the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria.

Combined the first and third bullets as the defined term "assurance skills" is not used in the attestation standards. The middle bullet is included below under "Compliance With Relevant Ethical Requirements."

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**Commented [MG22]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain

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**Commented [MG23]:** Consistent with paragraph .13 of SAS No. 146 which reads:

**Commented [MG24]:** Consistent with paragraph .15 of SAS 146 which reads:

**Commented [MG25]:** This was moved up from a bullet that has been moved to paragraph .34.

**Commented [MG26]:** Consistent with paragraph .15 of SAS 146 which reads:

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**Commented [MG27]:** Deleted as the paragraph was a repeat of paragraph .25.

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~~the practitioner's report (Ref: par. .A64) Determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement~~

**Commented [MG28]:** Moved to paragraph .34.

~~be. Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives and that the engagement was performed in accordance with the attestation standards and relevant legal and regulatory requirements. The direction and supervision of the members of the engagement team and the review of their work including determining that the nature, timing, and extent of direction, supervision, and review are (Ref: par. .A72)~~

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**Commented [MG29]:** Consistent with paragraph .29 of SAS No. 146 which reads:

29. The engagement partner should take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: par. A81)

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~~i. planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and~~

~~ii. responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm~~

**Commented [MG30]:** Moved to paragraph .34.

~~If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this section to other members of the engagement team to assist the engagement partner in complying with the requirements of this section, the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team and review of their work.~~

~~egec. Appropriate consultation being undertaken by the engagement team on difficult or contentious matters With respect to consultation, for~~

~~i. The engagement team undertaking consultation on~~

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~~(ai) difficult or contentious matters and matters on which the firm's policies or procedures require consultation and~~

~~(bii) other matters that, in the engagement partner's professional judgment, require consultation.~~

~~ii. Determining that members of the engagement team have undertaken appropriate consultation during the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.~~

~~iii. Determining that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.~~

*iv. Determining that conclusions agreed have been implemented.*

*41 In an examination or review engagement, the engagement partner should review engagement documentation at appropriate points in time during the engagement, including documentation relating to:*

*a. significant matters;*

*b. significant judgments, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and*

*c. other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.*

*36-42 In an examination or review engagement, on or before the date of the practitioner's report, the engagement partner should determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the practitioner's report to be issued.*

*43 Prior to dating the practitioner's report, the engagement partner should review practitioner's report and related engagement documentation, to determine that the report to be issued will be appropriate in the circumstances.*

*44 The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. A81)*

**Compliance With Relevant Ethical Requirements**

*36373645 Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action. The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the engagement. (Ref: par. A73A82 and A76A86)*

*38-46 The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. A74A83-A78A84)*

**Commented [MG31]:** Consistent with paragraph .35 of SAS No. 146 which reads:

35. The engagement partner should do the following: (Ref: par. A100–A103)  
a. Take responsibility for the engagement team undertaking consultation on i. difficult or contentious matters and matters on which the firm's policies or procedures require consultation and  
ii. other matters that, in the engagement partner's professional judgment, require consultation.

b. Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.  
c. Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.  
d. Determine that conclusions agreed have been implemented.

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**Commented [MG32]:** Consistent with paragraph .31 of SAS No. 146:

31. The engagement partner should review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to (Ref: par. A91–A94)

**Commented [MG33]:** Consistent with paragraph .32 of SAS No. 146, which reads:

**Commented [MG34]:** Consistent with paragraph .33 of SAS No. 146, which reads:

**Commented [MG35]:** Consistent with paragraph .34 of SAS No. 146, which reads:

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**Commented [MG36]:** This section is consistent with paragraphs .16–.21 of SAS No. 146, which read as follows:

**Commented [MG37]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain

**Commented [MG38]:** Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain



- a. *Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence*
- b. *Circumstances that may cause a breach of relevant ethical requirements, including those related to independence and the responsibilities of members of the engagement team when they become aware of breaches*
- c. *The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity*

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~~39-47~~ If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should evaluate the threats by complying with the firm's policies or procedures, using relevant information from the firm, the engagement team, or other sources; and take appropriate action. (Ref: par. ~~477-478~~)

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Commented [MG39]: Consistent with paragraph .17 of SAS No. 146 which reads:

17. The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)

a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence

~~40-48~~ The engagement partner should remain alert throughout the engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team (Ref: par. ~~479~~)

Commented [MG40]: Consistent with paragraph .18 of SAS No. 146 which reads:

~~41-49~~ If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. ~~480-485~~)

Commented [MG41]: Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain

Commented [MG42]: Consistent with paragraph .19 of SAS No. 146 which reads:

~~42-50~~ Prior to dating the practitioner's report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: par. ~~481~~)

Commented [MG43]: Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain

Commented [MG44]: Consistent with paragraph .20 of SAS No. 146 which reads:

#### Monitoring and Remediation

~~43-51~~ The engagement partner should take responsibility for the following: (Ref: par. A87)

Commented [MG45]: Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain

Commented [MG46]: Consistent with paragraph .21 of SAS No. 146 which reads:

a. *Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms*

Commented [MG47]: Application paragraphs removed pursuant to Task Force threshold of "absolutely necessary" for an understanding of the requirement or to explain

b. *Determining the relevance and effect on the engagement of the information referred to in ~~paragraph 43~~ subparagraph a and taking appropriate action*

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c. *Remaining alert throughout the engagement for information that may be relevant to the firm's monitoring and remediation process and communicating such information to those responsible for the process*

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Commented [MG48]: Consistent with paragraph .39 of SAS No. 146, which reads as follows:

[Subsequent paragraphs renumbered. No amendments to renumbered Paragraphs .37-.44 are renumbered to paragraphs .4452-5159. The content is unchanged.]

## Engagement Quality Control Review

~~45524560~~ For those engagements, ~~if any~~, for which the firm has determined that an engagement quality control review is required, *the engagement partner should* (Ref: par. ~~A67~~490)

- a. *determine that an engagement quality reviewer has been appointed.*
- b. *the engagement quality control reviewer should perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. This evaluation should include the following: cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.*
  - i. ~~Discussion of significant findings or issues with the engagement partner~~
  - ii. ~~Reading the written subject matter information (or assertion) and the proposed report~~
  - iii. ~~Reading selected engagement documentation relating to the significant judgments the engagement team made and the related conclusions it reached~~
  - iv. ~~Evaluation of the decisions reached in formulating the report and consideration of whether the proposed report is appropriate~~
- c. ~~the engagement partner should take responsibility for discussing with the engagement quality control reviewer significant matters and significant judgments findings or issues arising during the engagement, including those identified during the engagement quality control review, with the engagement quality reviewer, and should not release the practitioner's report until completion of the engagement quality control review and~~
- d. *not release the practitioner's report until completion of the engagement quality review*

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Commented [MG49]: For consistency with paragraph .36 of SAS No. 146 which reads as follows:

36. For audit engagements for which an engagement quality review is required, the engagement partner should (Ref: par. A104)  
a. determine that an engagement quality reviewer has been appointed.  
b. cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.  
c. discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer.  
d. not release the auditor's report until the completion of the engagement quality review. (Ref: par. A105–A107)

[Subsequent paragraphs further renumbered. No amendment to Paragraphs .46-.48 are renumbered to paragraphs .5361-54.5562. The content is unchanged.]

## Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A16.]

## Definitions

...  
Engagement Partner (Ref: par. .~~A12~~)

.A17 Practitioners are subject to Appendix B to the AICPA Code of Professional Conduct, “Council Resolution Concerning the Form of Organization and Name Rule,” which states that there must be a CPA who has ultimate responsibility for all engagements performed in accordance with SSAEs, and non-CPA owners could not assume ultimate responsibility for any such engagements. Law or regulation may include additional requirements.

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Engagement Team (Ref: par. .12)

.A18 If the attestation engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.

[Subsequent paragraphs renumbered. No amendment to Paragraphs .A17 is renumbered to paragraphs .A18A19. The content is unchanged.]

“Firm,” “Network,” and “Network Firm” (Ref: par. .~~A12~~)

.A19A20 The definitions of firm, network, or network firm in relevant ethical requirements may differ from those set out in this SSARS section. The AICPA code also provides guidance in relation to the terms network and network firm. Networks and other network firms may be structured in a variety of ways and are, in all cases, external to the firm. The provisions in this SSARS section in relation to networks also apply to any structures or organizations that do not form part of the firm but that exist within the network.

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**Commented [MG50]:** Consistent with paragraph .A51 of SAS 145 (and .A28 of March 2023 draft of proposed ISSA 5000):

**A51.** Under SQMS No. 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

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[Subsequent paragraphs further renumbered. No amendment to Paragraphs .A18 .A60 are renumbered to renumbered paragraphs .A20A21–.A62A36. The content is unchanged.]

Acceptance and Continuance (Ref: par. .25-.26)

.A37 Under SOMS No. 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and attestation engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

*.A38. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.*

*.A39. In circumstances in which the firm is obligated by law or regulation to accept or continue an attestation engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.*

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A40–.A64.]

#### Using the Work of an Other Practitioner (Ref: par. .3335)

*.A59.165 The practitioner is responsible for (a) the direction, supervision, and performance of the engagement in compliance with professional standards; applicable regulatory and legal requirements; and the firm's policies and procedures and (b) determining whether the practitioner's report that is issued is appropriate in the circumstances. The practitioner may, however, use the work of other practitioners to obtain sufficient appropriate evidence to express an opinion, conclusion, or findings on the subject matter information (or assertion). Paragraph .34a of this section requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. Accordingly, the practitioner may involve an other practitioner to perform attestation work to fulfill the requirements of the SSAEs. The engagement partner may also determine to use work completed by an other practitioner or to make reference to the other practitioner in the practitioner's report.*

*.A60.166 The engagement partner may decide to assume responsibility for the work of the other practitioner or to make reference to the other practitioner in the practitioner's report. Regardless of whether the practitioner uses the work of an other practitioner engagement partner decides to assume responsibility or (including making make reference to the other practitioner in the practitioner's report), the engagement partner remains ultimately responsible, and therefore, accountable, for compliance with the requirements of the SSAEs. the practitioner is required to communicate clearly with the other practitioner and evaluate whether the other practitioner's work is adequate for the purposes of the engagement. The nature, timing, and extent of this involvement are affected by the practitioner's understanding of the other practitioner, such as previous experience with, or knowledge of, the other practitioner and the degree to which the engagement team and the other practitioner are subject to common quality control policies and procedures.*

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**Commented [MG51]:** Consistent with paragraph .A52 of SAS No. 146 (and paragraph .A29 of March 2023 draft of proposed ISSA 5000):

**A52.** If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

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**Commented [MG52]:** Consistent with paragraph .A56 of SAS No. 146 (and paragraph .A30 of the March 2023 draft of the proposed ISSA 500):

**A56.** In circumstances in which the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information

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**Commented [MG53]:** Paragraph .13 of AU-C section 935 as amended by SAS No. 138 reads as follows:

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A67–.A68.]

## Quality ~~Control~~ Management

Engagement Resources (Ref: par. 36a)

*.A69, Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, where applicable, a practitioner's external expert. Technological resources include technological tools that may allow the practitioner to more effectively and efficiently manage the engagement. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programs, templates, checklists or forms.*

Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. 36a)

*.A70, In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm's related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation, and maintenance programs when using firm-approved technology to perform attestation procedures.*

*Assignment of the Engagement Team and the Practitioner's Specialists (Ref: par. .34a36b=b/f/ and e)*

*.A61A63A61A71* The practitioner may obtain knowledge about the specific underlying subject matter to which the procedures are to be applied and the criteria through formal or continuing education, practical experience, or consultation with others.

*.A62A64A62A72* When considering **determining that the engagement team has** the appropriate competence and capabilities **expected of those involved in the engagement**, the engagement partner may take into consideration such matters as **their the team's**

- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- technical expertise, including expertise **with relevant in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement** and specialized areas relevant to the underlying subject matter.
- knowledge of relevant industries in which the entity operates.

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**Commented [MG54]:** This is a direct lift from paragraph .A35 of the March 2023 draft of the proposed ISSA 5000. This is similar to paragraphs .A62–.A63 from SAS No. 146 but is more summarized:

### Human Resources

**A62.** Human resources include members of the engagement team (see also paragraphs A5 and A15–A21) and, when applicable, an auditor's external specialist and individuals from within the entity's internal audit function who provide direct assistance on the audit.

### Technological Resources

**A63.** The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological resources may include tools that allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional skepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team.

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**Commented [MG55]:** Consistent with paragraph .A70 in SAS No. 146 (without the reference to paragraph .A6 which

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- ability to ~~apply~~ *exercise professional skepticism* and professional judgment.
- understanding of the firm's ~~quality control~~ policies ~~and or~~ procedures.

~~A64~~A73 Under ~~QM section 10~~*OM section 10*, the firm *is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. OM section 10 also requires that such direction, supervision, and review be planned and performed on the basis that the work performed by less experienced members of the engagement team be directed, supervised, and reviewed by more* ~~'s review responsibility policies and procedures are determined on the basis that suitably experienced team members, review the work of other team members. The engagement partner may delegate part of the review responsibility to other members of the engagement team, in accordance with the firm's system of quality control.~~

~~A63~~A65A63A74 Some of the attestation work may be performed by a multidisciplinary team that includes one or more practitioner's specialists. For example, in an examination engagement, a practitioner's specialist may be needed to assist the practitioner in obtaining an understanding of the underlying subject matter, criteria, and other engagement circumstances or in assessing or responding to the risk of material misstatement.

Insufficient or Inappropriate Resources (Ref: par. 39)

~~A75~~*The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this section and the nature and circumstances of the engagement. In certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 37 and paragraph 51c. For example, if an attestation software program provided by the firm has not incorporated new or revised procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement.*

~~A76~~*If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:*

- *Changing the planned approach to the nature, timing, and extent of direction, supervision, and review*

**Commented [MG56]:** Consistent with paragraph A72 of SAS 146 which reads:

A72. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's

- understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- expertise in specialized areas of accounting or auditing.
- expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.

**Commented [MG57]:** Consistent with paragraph .A82 d

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**Commented [MG59]:** Consistent with paragraph .A78 d

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- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the engagement
- Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation

**Leadership Responsibilities for Quality in Attestation Engagements (Ref: par. .35e39e.40 and .44)**

A77. Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality Management requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements.

A78. The engagement partner is required to have sufficient competence in the underlying subject matter to be able to:

- When needed, ask appropriate questions of a practitioner's specialist and evaluate whether the answers make sense in the engagement circumstances;
- Evaluate a practitioner's specialist's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
- Take responsibility for the conclusions reached on the engagement

A79. What constitutes sufficient knowledge of the underlying subject matter and its measurement or evaluation depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement partner has sufficient knowledge of the underlying subject matter and its measurement or evaluation in order to accept responsibility for the opinion, conclusion, or findings is a matter of professional judgment for the engagement partner, and may involve taking account of factors such as:

- The nature and complexity of the underlying subject matter and its measurement or evaluation;
- The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter; and

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**Commented [MG60]:** Consistent with paragraph .A79 of SAS No. 146 (and paragraph .A46 of the March 2023 draft of the proposed ISSA 5000):

**A79.** If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:

- Changing the planned approach to the nature, timing, and extent of direction, supervision, and review (see also paragraph A94)

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**Commented [MG61]:** Consistent with paragraph .A24 of the March 2023 draft of the proposed ISSA 5000:

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**Commented [MG62]:** Consistent with paragraph .A25 of the March 2023 draft of the proposed ISSA 5000:

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(c) The engagement partner's and engagement team's competence and previous experience in relation to the underlying subject matter.

.A80, Being sufficiently and appropriately involved throughout the attestation, engagement when procedures, tasks, or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including the following:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof, and providing any other necessary instructions and relevant information
- Directing and supervising the assignees
- Reviewing the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 36c, 40b, and 41-44 of this section.

.A66 Within the context of the firm's system of quality management, engagement teams have a responsibility to implement the firm's policies or procedures that are applicable to the engagement and communicate to the firm information arising from the engagement that is required to be communicated by the firm's policies or procedures to support the firm's system of quality management.

.A67 The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking overall responsibility for managing and achieving quality on each engagement, emphasize the fact that quality is essential when performing an engagement in accordance with the attestation standards and the importance to the quality of the engagement of

a. performing work that complies with professional standards and regulatory and legal requirements.

b. complying with the firm's quality management policies or procedures, as applicable.

c. issuing a report, if applicable, for the engagement that is appropriate in the circumstances.

d. the engagement team's ability to raise concerns without fear of reprisals.

.A68 Ordinarily, the engagement team may depend on the firm's policies or procedures unless

- the engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement, or

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**Commented [MG63]:** Consistent with paragraph .A26 of the March 2023 draft of the proposed ISSA 5000:

A26. What constitutes sufficient subject matter competence depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement leader has sufficient subject matter competence in order to accept responsibility for the assurance conclusion is a matter of professional judgment for the engagement leader, and may involve taking account of factors such as:

(a) The judgment involved in identifying the reporting topics for inclusion in the entity's sustainability information;

(b) The judgment involved in agreeing the sustainability information that is within the scope of the assurance engagement;

(c) The nature and complexity of the underlying subject matter and its measurement or evaluation;

(d) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter; and

(e) The engagement leader's and engagement team's competence and previous experience in relation to the underlying subject matter.

**Exceptions -**

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- ~~information provided by the firm or other parties about the effectiveness of such policies or procedures suggests they cannot be relied on (for example, information provided by the firm's monitoring activities, external inspections, or other relevant sources indicates that the firm's policies or procedures are not operating effectively).~~

~~A69 For example, the engagement team may depend on the firm's policies and procedures in relation to~~

- ~~competence and capabilities of personnel through their recruitment and formal training.~~
- ~~independence through the accumulation and communication of relevant independence information.~~
- ~~maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of client relationships and specific engagements.~~
- ~~adherence to regulatory and legal requirements through the firm's monitoring and remediation process.~~

~~When considering the deficiencies identified in the firm's system of quality management that may affect the engagement, the engagement partner may consider the remedial actions undertaken by the firm to address those deficiencies.~~

~~A70 If the engagement partner becomes aware (including by being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement, or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph A3e because such information is relevant to the firm's monitoring and remediation process.~~

~~A71 A deficiency in the firm's system of quality management does not necessarily indicate that an engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the accountant's report was not appropriate in the circumstances.~~

~~A64/A72 Under QM section 10A SQMS No. 1QM section 10, the firm is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. SQMS No. 1QM section 10 also requires that such direction, supervision, and review be planned and performed on the basis that the work performed by less experienced members of the engagement team be directed, supervised, and reviewed by more experienced members. The firm's review responsibility policies and procedures are determined on the basis that suitably experienced team members review the work of other team members. The engagement partner may delegate part of the~~

review responsibility to other members of the engagement team, in accordance with the firm's system of quality control.

.A81. The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the engagement.

Compliance With Relevant Ethical Requirements (Ref: par. 37).

Relevant Ethical Requirements (Ref: par. 45)

.A82. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in

- drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the attestation engagement, and
- keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. 46)

.A83 Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the engagement. Engagement team members from another firm are neither partners nor staff of the engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to those of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.

Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 46)

.A84. In accordance with SOMS No. 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.

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Taking Appropriate Action (Ref: par. 49).

.A85. Examples of appropriate actions may include the following:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the engagement when withdrawal is possible under applicable law or regulation.

Considerations Specific to Governmental Audit Organizations (Ref: par. 45).

.A86. Law or regulation may provide safeguards for the independence of governmental organizations and the practitioners they employ. However, in the absence of law or regulation, governmental organizations may establish supplemental safeguards to assist the practitioner or organization in maintaining independence. Additionally, when law or regulation does not permit withdrawal from the engagement, the practitioner may disclose in the practitioner's report the circumstances affecting the practitioner's independence.

.A73. Based on the nature and circumstances of the engagement, certain law, regulation, or aspects of relevant ethical requirements, such as those pertaining to noncompliance with laws or regulations, may be relevant to the engagement (for example, laws or regulations dealing with money laundering, corruption, or bribery).

.A74. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the engagement. For example, the firm may do the following:

- Communicate the independence requirements to engagement teams
- Provide training for engagement teams on relevant ethical requirements
- Establish manuals and guides (that is, intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements

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- ~~Assign personnel to manage and monitor compliance with relevant ethical requirements (for example, SQMS No. 1QM section 10 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements~~
- ~~Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to
  - communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter
  - communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and, if it is not, address the threat by eliminating it or reducing it to an acceptable level
  - promptly communicate any breaches of the relevant ethical requirements, including those related to independence~~

~~A75 The engagement partner may take into account the information, communication, and resources described in paragraph A74 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.~~

~~A76 Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in~~

- ~~drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement, and~~
- ~~keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.~~

~~**Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 38–39)**~~

~~A77 In accordance with SQMS No. 1QM section 10, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.~~

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~~.A78—Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the AICPA code (ET section 1.295.040) provides safeguards for reducing threats to independence to an acceptable level when performing nonattest services for an attest client.~~

***Breaches of Relevant Ethical Requirements (Ref: par. .40)***

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~~.A79—In accordance with SQMS No. 10M section 10, the firm is required to establish policies or procedures for identifying, communicating, evaluating, and reporting any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.~~

***Taking Appropriate Action (Ref: par. .41)***

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~~.A80—Examples of appropriate actions may include the following:~~

- ~~• Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.~~
- ~~• Communicating with those charged with governance.~~
- ~~• Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.~~
- ~~• Seeking legal advice.~~
- ~~• Withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.~~

***Prior to Dating the Accountant's Review Report (Ref: par. .42)***

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~~.A81—AT-C sections 205, 206, 210, and 215 require that the practitioner's report include a statement that the practitioner is required to be independent of the entity and to meet the practitioner's other ethical responsibilities in accordance with the relevant ethical requirements relating to the engagement.<sup>8/10</sup> Performing the procedures required by paragraphs .37-.42 of this section provide the basis for these statements in the practitioner's report.~~

~~<sup>8/10</sup> Paragraph .63i of AT-C section 205, Assertion-Based Examination Engagements, paragraph .12h of AT-C section 206, Direct Examination Engagements, paragraph .45i of AT-C section 210, Review Engagements, and paragraph .34r of AT-C section 215, Agreed-Upon Procedures Engagements.~~

***Monitoring and Remediation (Ref: par. .51)***

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~~.A87. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate~~

accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that

- a practitioner's specialist is needed or
- the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the engagement where deficiencies have been identified.

If an identified deficiency does not affect the quality of the engagement (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.

[Subsequent paragraphs further renumbered. No amendment to renumbered paragraphs .A8288–.A8389.]

## **Engagement Quality Control Review (Ref: par. .A4560)**

### Engagement Quality Review

.A90 SOMS No. 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with SOMS No. 2, Engagement Quality Reviews,<sup>fn 11</sup> and requiring an engagement quality review for certain types of engagements.<sup>fn 12</sup> SOMS No. 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

<sup>fn 11</sup> SOMS No. 2, Engagement Quality Reviews.

<sup>fn 12</sup> Paragraph .35f of SOMS No. 1.

~~.A67, .A845~~ Other matters that may be considered in an engagement quality control review include the following:

- a. ~~The engagement team's evaluation of the firm's independence in relation to the engagement~~
- b. ~~Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations~~
- c. ~~Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached~~

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**Commented [MG70]:** Consistent with paragraph .A112 of SAS No. 146 (and paragraph .A61 of March 2023 draft of the proposed ISSA 5000):

**A112.** In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that

• an auditor's specialist is needed or

• the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.

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~~[Paragraphs .A68–.A76 are renumbered to paragraphs .A82–.A90. The content is unchanged. Subsequent paragraphs further renumbered. No further amendment to section 105.]~~

**Amendment to SSAE No. 19, *Agreed-Upon Procedures Engagements*, as Amended, section 215, *Agreed-Upon Procedures Engagements* (AICPA, Professional Standards, AT-C sec. 215)**

**+2.** This amendment is effective for agreed-upon procedures engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

**(*Boldface italics* denotes new language. Deleted text is shown in ~~striketrough~~.)**

[No amendment to paragraphs .01–.41.]

**Documentation**

**.42** The practitioner should prepare engagement documentation on a timely basis that includes the following: (Ref: par. .A75–.A76)

- a. The written agreement and acknowledgment from the engaging party regarding the appropriateness of the procedures performed for the intended purpose of the engagement, as required by paragraph .22
- b. The nature, timing, and extent of the procedures performed to comply with relevant sections and applicable legal and regulatory requirements, including the following:
  - i. The identifying characteristics of the specific items or matters tested
  - ii. Who performed the engagement work and the date such work was completed
  - iii. When the appropriate party will not provide one or more of the requested written representations pursuant to paragraphs .27–.28 or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the matters in paragraph .30a–c
  - iv. Who reviewed the engagement work performed and the date and extent of such review
- c. The results of the procedures performed and the evidence obtained
- d. ***If the agreed-upon procedures engagement is subject to an engagement quality review***

- i. *the identity of the engagement quality reviewer for the engagement and the date and extent of such review and*
- ii. *that the engagement quality review has been completed before the release of the practitioner's agreed-upon procedures report*

[No further amendment to ~~paragraphs .A1–.A78~~ section 215.]

**Amendment to SSAE No. 21, *Direct Examination Engagements*, as Amended, ~~Section 205, Assertion-Based Examination Engagements~~ (AICPA, Professional Standards, AT-C sec. 205)**

**+3.** This amendment is effective for examination engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

**(*Boldface italics* denotes new language. Deleted text is shown in ~~striketrough~~.)**

[No amendment to paragraphs .01–.88.]

**Documentation**

**.89** The practitioner should prepare engagement documentation that is sufficient to determine the following: (Ref: par. A127–.A130)

- a. The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including the following:
  - i. The identifying characteristics of the specific items or matters tested
  - ii. Who performed the engagement work and the date such work was completed
  - iii. The discussions with the responsible party or others about findings or issues that, in the practitioner's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place
  - iv. When the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations or that the written representations are otherwise not reliable, the matters in paragraph .56

- v. When the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .51, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .51, in accordance with paragraph .52
  - vi. Who reviewed the engagement work performed and the date and extent of such review
  - vii. If the practitioner identified information that is inconsistent with the practitioner's final opinion regarding a significant matter, how the practitioner addressed the inconsistency
- b. The results of the procedures performed and the evidence obtained
- c. *If the examination engagement is subject to an engagement quality review*
- i. *the identity of the engagement quality reviewer for the engagement and the date and extent of such review and*
  - ii. *that the engagement quality review has been completed before the release of the practitioner's examination report*

[No ~~further~~ amendment to ~~paragraphs .90–.A131~~section 205.]

**Amendment to SSAE No. 22, *Review Engagements*, ~~as Amended, section 210, *Review Engagements* (AICPA, Professional Standards, AT-C sec. 210)~~**

~~14.~~ This amendment is effective for review engagements performed in accordance with Statements on Standards for Attestation Engagements beginning on or after December 15, 2025.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strike through~~.)

[No amendment to paragraphs .01–~~.66~~64.]

**Documentation**

**.65** The practitioner should prepare engagement documentation that is sufficient to determine the following: (Ref: par. .A106–.A109)

- a. The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including the following:
  - i. The identifying characteristics of the specific items or matters tested

- ii. Who performed the engagement work and the date such work was completed
  - iii. The discussions with the responsible party or others about findings or issues that, in the practitioner's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place
  - iv. When the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the matters in paragraph .38
  - v. When the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .33, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .33, in accordance with paragraph .34
  - vi. Who reviewed the engagement work performed and the date and extent of such review
  - vii. If the practitioner identified information that is inconsistent with the practitioner's final conclusion regarding a significant matter, how the practitioner addressed the inconsistency
- b. The results of the procedures performed and the review evidence obtained
- c. *If the review engagement is subject to an engagement quality review*
- i. *the identity of the engagement quality reviewer for the engagement and the date and extent of such review and*
  - ii. *that the engagement quality review has been completed before the release of the practitioner's review report*

[No further amendment to ~~paragraphs .66 – A110~~section 210.]





Proposed changes to the attestation standards to conform to the quality management suite of standards

Note – Comparison of definitions are included at the end of this document

Task Force approach with respect to application material from SAS No. 146:

With few exceptions (and only when deemed essential), new application paragraphs are included only for new requirements proposed for AT-C section 105 when application material for corresponding requirements is included in both SAS No. 146 and the [March 2023 draft of proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements](#).  
Extant application material in AT-C section 105 that is affected by proposed revisions to extant requirements are proposed to be updated for consistency with the corresponding requirement and with SAS No. 146.

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<b>Leadership Responsibilities for Managing and Achieving Quality on Audits</b>  Paragraphs for which there is no proposed equivalent in AT-C section 105 are highlighted in yellow	Paragraphs for which there is no proposed equivalent in AT-C section 105 are highlighted in yellow	<i>Leadership Responsibilities for Quality in Attestation Engagements</i>			<b>Engagement Level Quality Control Management</b>
<b>13.</b> The engagement partner should take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm’s culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the audit	<b><i>Taking Overall Responsibility for Managing and Achieving Quality</i></b> <b>A28.</b> SQMS No. 1 requires the firm to establish quality objectives that address the firm’s governance and leadership, which support the design, implementation, and operation of the system of quality management. The engagement partner’s responsibility for managing and achieving quality	<b>.40</b> The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following: <b>(Ref: par. .A80)</b>  <b>a.</b> Appropriate procedures being performed regarding the acceptance and continuance of client			<b>.21</b> In an engagement performed in accordance with SSARs, the engagement partner should take responsibility for the following: (Ref: par. <del>.A40A43</del> – <del>.A43A47</del> )  <b>a.</b> The overall <b>managing and achieving of</b> quality <del>of-on</del> each <b>the</b> engagement to which that partner is assigned, <b>including taking responsibility for creating an environment for the</b>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: par. A28–A37)	<p>is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this SAS, the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (such as leading by example). A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.</p> <p><b>Scalability</b> <b>A29.</b> The nature and extent of the actions of the engagement partner to demonstrate the firm’s commitment to quality may depend on a variety of factors, including the size, structure, geographical dispersion, and complexity of the firm and the engagement team and the nature and circumstances of the audit engagement. With a smaller engagement team with few engagement team members, influencing the desired culture</p>	<p>relationships and engagements. <del>The</del> <b>overall managing and achieving quality on the engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm’s culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. If the engagement partner assigns the design or performance of procedures, tasks, or</b></p>			<p><b>engagement that emphasizes the firm’s culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining that the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.</b></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.</p> <p><b>Sufficient and Appropriate Involvement</b></p> <p><b>A30.</b> Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including the following:</p> <ul style="list-style-type: none"><li>• Taking responsibility for the nature, timing, and extent of the direction and supervision of the members of the engagement team and the review of their work in complying with the requirements of this SAS</li><li>• Varying the nature, timing, and extent of such direction, supervision, and review in the context of the nature and</li></ul>	<p><i>actions related to a requirement of this section to other members of the engagement team to assist the engagement partner in complying with the requirements of this section, the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team and review of their work.</i></p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>circumstances of the engagement</p> <p><b>Communication</b></p> <p><b>A31.</b> Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this SAS, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team or with</p> <p>a. the firm (for example, individuals performing activities within the firm’s system of quality management, including those assigned ultimate or operational responsibility for the firm’s system of quality management),</p> <p>b. others involved in the audit (for example, internal auditors who provide direct assistance<sup>25</sup> or an auditor’s external specialist<sup>26</sup>), or</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>c. parties that are external to the firm (for example, management, those charged with governance, or regulatory authorities).</p> <p><b>A32.</b> The nature and circumstances of the audit engagement may affect the engagement partner’s decisions regarding the appropriate means of effective communication with the members of the engagement team. For example, to support appropriate direction, supervision, and review, the firm may use IT applications to facilitate communication between the members of the engagement team when they are performing work across different geographical locations.</p> <p><b>Professional Skepticism (Ref: par. 7)</b></p> <p><b>A33.</b> The engagement partner is responsible for emphasizing the importance of each engagement team member maintaining professional skepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with AU-C section 300, <i>Planning an Audit</i>, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.</p> <p><b>A34.</b> Impediments to the exercise of professional skepticism at the engagement level may include the following:</p> <ul style="list-style-type: none"><li>• Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities in which technical expertise or specialized skills are needed for effective understanding, assessment of, and responses to risks and</li></ul>				



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>informed questioning of management.</p> <ul style="list-style-type: none"><li>• Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise, and review. For example, external time pressures may create restrictions to analyzing complex information effectively.</li><li>• Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team’s ability to resolve complex or contentious issues.</li><li>• Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>judgments and an informed questioning of management’s assertions.</p> <ul style="list-style-type: none"><li>Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.</li><li>Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.</li></ul> <p><b>A35.</b> Unconscious or conscious auditor biases may affect the engagement team’s professional judgments, including, for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>may impede the exercise of professional skepticism and, therefore, the reasonableness of the professional judgments made by the engagement team in complying with the requirements of this SAS may include the following:</p> <ul style="list-style-type: none"><li>• <i>Availability bias</i>, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not</li><li>• <i>Confirmation bias</i>, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief</li><li>• <i>Groupthink</i>, which is a tendency to think or make decisions as a group, discouraging creativity or individual responsibility</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<div><ul style="list-style-type: none"><li>• <i>Overconfidence bias</i>, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions</li><li>• <i>Anchoring bias</i>, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed</li><li>• <i>Automation bias</i>, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions about whether such output is reliable or fit for purpose</li></ul></div> <div>A36. Possible actions that the engagement team may take to mitigate impediments to the</div>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>exercise of professional skepticism at the engagement level may include the following:</p> <ul style="list-style-type: none"><li>• Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement</li><li>• Explicitly alerting the engagement team to instances or situations in which vulnerability to unconscious or conscious auditor biases may be greater (for example, areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>performing audit procedures</p> <ul style="list-style-type: none"><li>Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise be assigned to the engagement</li><li>Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with</li><li>Involving members of the engagement team with specialized skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit</li><li>Modifying the nature, timing, and</li></ul>				



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>extent of direction, supervision, or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis, or more in-depth reviews of certain working papers for</p> <p>— complex or subjective areas of the audit,</p> <p>— areas that pose risks to achieving quality on the audit engagement,</p> <p>— areas with a fraud risk, and</p> <p>— identified or suspected noncompliance with laws or regulations</p> <p>• Setting expectations for</p> <p>— less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>engagement team members or the engagement partner, and</p> <p>— more experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice, or assistance</p> <ul style="list-style-type: none"><li>Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought</li></ul> <p><i>Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: par. 15)</i></p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p><b>A37.</b> Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks, or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including the following:</p> <ul style="list-style-type: none"> <li>• Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof, and providing any other necessary instructions and relevant information</li> <li>• Directing and supervising the assignees</li> <li>• Reviewing the assignees’ work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34</li> </ul>		<p><i>.A80 Being sufficiently and appropriately involved throughout the attestation engagement when procedures, tasks, or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including the following:</i></p> <ul style="list-style-type: none"> <li>• <i>Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof, and providing any other necessary instructions and relevant information</i></li> <li>• <i>Directing and supervising the assignees</i></li> <li>• <i>Reviewing the assignees’ work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34</i></li> </ul>	Paragraph .A37 from SAS No. 146 is the equivalent of paragraph .A23 in the March 2023 draft of the proposed ISSA 5000.	
14. In creating the environment described in paragraph 13, the				Not included in proposed revisions to AT-C section 105.	

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>engagement partner should take responsibility for clear, consistent, and effective actions being taken that reflect the firm’s commitment to quality and that establish and communicate the expected behavior of engagement team members, including emphasizing the following: (Ref: par. A30–A34)</p> <p><i>a.</i> That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level</p> <p><i>b.</i> The importance of professional ethics, values, and attitudes to the members of the engagement team</p> <p><i>c.</i> The importance of open and robust communication within the engagement team and supporting the ability of engagement team members to raise concerns without fear of reprisal</p> <p><i>d.</i> The importance of each engagement team member maintaining professional skepticism throughout the audit engagement</p>					

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
15. If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this SAS to other members of the engagement team to assist the engagement partner in complying with the requirements of this SAS, the engagement partner should continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team and review of their work. (Ref: par. 9 and A37)				Requirement in paragraph .15 of SAS No. 147 is included at the end of paragraph .40a of the proposed revisions to AT-C section 105 (see the row associated with paragraph .13 of SAS No. 147 above).	<del>b. The direction</del> <b>Directing</b> , supervision <del>supervising</del> , planning, and <del>performance of performing</del> the engagement in compliance with professional standards and applicable legal and regulatory requirements. <b>If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this SSARS to other members of the engagement team to assist the engagement partner in complying with the requirements of this SSARS, the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team and review of their work.</b>
Relevant Ethical Requirements, Including Those Related to Independence					
16. The engagement partner should have an understanding of the relevant ethical	Relevant Ethical Requirements (Ref: par. 1, 16–21)	<del>.36</del> 45 Throughout the engagement, the engagement partner should remain alert,			<del>.23</del> Throughout the engagement, the engagement partner should remain alert, through

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: par. A38–A42 and A48)	<p><b>A38.</b> AU-C section 200 requires that the auditor comply with relevant ethical requirements relating to financial statement audit engagements, including those requirements pertaining to independence. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of depository institutions or employee benefit plans. AU-C section 600 includes additional requirements and guidance to those in this SAS regarding communications about relevant ethical requirements with component auditors.</p> <p><b>A39.</b> Based on the nature and circumstances of the audit engagement, certain law, regulation, or aspects of relevant ethical requirements, such as those pertaining to noncompliance with laws or regulations, may be relevant to the engagement (for example, laws or regulations dealing with money laundering, corruption, or bribery).</p>	through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action. <b><i>The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the engagement. (Ref: par. A82–A86)</i></b>			observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action. <b><i>The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the engagement. (Ref: par. A50–A53)</i></b>



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p><b>A40.</b> The firm’s information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may do the following:</p> <ul style="list-style-type: none"> <li>Communicate the independence requirements to engagement teams.</li> <li>Provide training for engagement teams on relevant ethical requirements.</li> <li>Establish manuals and guides (that is, intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements.</li> </ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<ul style="list-style-type: none"><li>Assign personnel to manage and monitor compliance with relevant ethical requirements (for example, SQMS No. 1 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements.</li><li>Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>— communicate information about client engagements and the scope of services, including nonassurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.</p> <p>— communicate circumstances and relationships that may create a threat to independence so that the firm can evaluate whether such a threat is at an acceptable level and, if it is not, address the threat by eliminating it or reducing it to an acceptable level.</p> <p>— promptly communicate any breaches of the relevant ethical requirements, including those related to independence.</p> <p><b>A41.</b> The engagement partner may take into account the</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>information, communication, and resources described in paragraph A39 when determining whether the engagement partner may depend on the firm’s policies or procedures in complying with relevant ethical requirements.</p> <p><b>A42.</b> Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in</p> <ul style="list-style-type: none"><li>• drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement, and</li><li>• keeping the engagement partner informed about matters relevant to the engagement team’s understanding and fulfillment of relevant ethical requirements and the firm’s related policies or procedures.</li></ul>		<p><i>.A82 Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in</i></p> <ul style="list-style-type: none"><li>• <i>drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the attestation engagement, and</i></li><li>• <i>keeping the engagement partner informed about matters relevant to the engagement team’s understanding and fulfillment of relevant ethical requirements and the firm’s related policies or procedures.</i></li></ul>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p><b><i>Considerations Specific to Governmental Audit Organizations</i></b></p> <p><b>A48.</b> Law or regulation may provide safeguards for the independence of governmental audit organizations and the auditors they employ. However, in the absence of law or regulation, governmental audit organizations may establish supplemental safeguards to assist the auditor or audit organization in maintaining independence. Additionally, when law or regulation does not permit withdrawal from the engagement, the auditor may disclose in the auditor’s report the circumstances affecting the auditor’s independence.</p>		<p>Considerations Specific to Governmental Audit Organizations</p> <p><b><i>.A86 Law or regulation may provide safeguards for the independence of governmental organizations and the practitioners they employ. However, in the absence of law or regulation, governmental organizations may establish supplemental safeguards to assist the practitioner or organization in maintaining independence. Additionally, when law or regulation does not permit withdrawal from the engagement, the practitioner may disclose in the practitioner’s report the circumstances affecting the practitioner’s independence.</i></b></p>		
<p><b>17.</b> The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)</p>	<p><b><i>The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. 8 and par. 17)</i></b></p> <p><b>A23.</b> Within the context of the firm’s system of quality management, engagement team members from the firm are responsible for implementing the firm’s policies or procedures that are applicable to the audit engagement. Engagement team members from another firm are neither partners nor staff of the</p>	<p><b><i>.46 The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm’s related policies or procedures, including those that address the following: (Ref: par. .A83-.A84)</i></b></p>	<p>The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. .46)</p> <p><b><i>.A83 Within the context of the firm’s system of quality management, engagement team members from the firm are responsible for implementing the firm’s policies or procedures that are applicable to the engagement. Engagement team members from another firm are neither partners nor staff of the</i></b></p>		<p><b><i>.24 The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm’s related policies or procedures, including those that address the following:</i></b></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence</p> <p>b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches</p> <p>c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity</p>	<p>engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to those of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.</p> <p><b>A24.</b> In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm</p>	<p><b>a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence</b></p> <p><b>b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence and the responsibilities of members of the engagement team when they become aware of breaches</b></p> <p><b>c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity</b></p>	<p><i>engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to those of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.</i></p>		<p><i>(Ref: par. .A43 and .A51–.A55)</i></p> <p><b>a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence, if applicable to the circumstances of the engagement</b></p> <p><b>b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, if applicable to the circumstances of the engagement, and the responsibilities of members of the engagement team when they become aware of breaches</b></p>



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<ul style="list-style-type: none"><li>• has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm’s recruitment and training processes, and therefore, the firm’s policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or oversight body. Paragraphs 22 and A47–A48 of AU-C section 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.</li><li>• understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm’s training with</li></ul>				<i>c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity</i>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>regard to the firm’s policies or procedures for relevant ethical requirements. The firm’s policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.</p> <ul style="list-style-type: none"><li>• will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm’s independence systems. The firm’s policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>ways, such as through written confirmation.</p> <p><b>A25.</b> When firm policies or procedures require specific activities to be undertaken in certain circumstances (for example, consultation on a particular matter), it may be necessary to communicate with individuals who are not personnel about what is expected of them to enable the engagement partner to comply with the firm’s policies or procedures. For example, in a group audit engagement, communicating the group auditor’s policies and procedures about matters subject to consultation to a component auditor enables the component auditor to determine which identified difficult or contentious matters that are relevant to the group financial statements to bring to the attention of the group engagement team.</p> <p><i>Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 17–18)</i></p>		<p>Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 46)</p>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p><b>A43.</b> In accordance with SQMS No. 1, the firm’s responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.</p> <p><b>A44.</b> Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the “General Requirements for Performing Nonattest Services” interpretation (ET sec. 1.295.040) of the “Independence Rule” in the AICPA code provides guidance regarding safeguards for reducing threats to independence to an acceptable level when performing nonattest services for an attest client.</p>		<p><i>.A84 In accordance with SQMS No. 1, the firm’s responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.</i></p>		
<b>18.</b> If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the		<i>.47 If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the</i>			<i>.25 If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the</i>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
engagement partner should evaluate the threats by complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources, and take appropriate action. (Ref: par. A43–A44)		<i>engagement partner should evaluate the threats by complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources; and take appropriate action.</i>			<i>engagement partner should evaluate the threats by complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources; and take appropriate action. (Ref: par. .A54–.A55)</i>
<b>19.</b> The engagement partner should remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team. (Ref: par. A45)	<b>Breaches of Relevant Ethical Requirements</b> (Ref: par. 19) <b>A45.</b> In accordance with SQMS No. 1, the firm is required to establish policies or procedures for identifying, communicating, evaluating, and reporting any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.	<b>.48</b> <i>The engagement partner should remain alert throughout the engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team</i>			<b>.26</b> <i>The engagement partner should remain alert throughout the engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team. (Ref: par. .A56)</i>
<b>20.</b> If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. A46)	<b>Taking Appropriate Action</b> (Ref: par. 20) <b>A46.</b> Examples of appropriate actions may include the following: <ul style="list-style-type: none"> <li>Following the firm’s policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals</li> </ul>	<b>.49</b> <i>If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. A85)</i>	Taking Appropriate Action (Ref: par. 49) <p><b>.A85</b>    <i>Examples of appropriate actions may include the following:</i></p> <ul style="list-style-type: none"> <li><i>Following the firm’s policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so</i></li> </ul>		<b>.27</b> <i>If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. .A57)</i>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>so that appropriate action can be taken, including as applicable, disciplinary action.</p> <ul style="list-style-type: none"> <li>Communicating with those charged with governance.</li> <li>Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.</li> <li>Seeking legal advice.</li> <li>Withdrawing from the audit engagement when withdrawal is possible under applicable law or regulation.</li> </ul>		<p><i>that appropriate action can be taken, including as applicable, disciplinary action.</i></p> <ul style="list-style-type: none"> <li><i>Communicating with those charged with governance.</i></li> <li><i>Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.</i></li> <li><i>Seeking legal advice.</i></li> <li><i>Withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.</i></li> </ul>		
<p><b>21.</b> Prior to dating the auditor’s report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: par. A38 and A47)</p>	<p><b>Prior to Dating the Auditor’s Report (Ref: par. 21)</b></p> <p><b>A47.</b> AU-C section 700, <i>Forming an Opinion and Reporting on Financial Statements</i>, requires that the auditor’s report include a statement that the auditor is independent of the entity in</p>	<p><b>.50</b> Prior to dating the practitioner’s report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including,</p>			<p><b>.28</b> In a compilation or review engagement, prior to dating the accountant’s report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including, in a review engagement, those</p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	accordance with the relevant ethical requirements relating to the audit and that the auditor has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.28 Performing the procedures required by paragraphs 16–21 of this SAS provides the basis for these statements in the auditor’s report.	<i>those related to independence, have been fulfilled</i>			<i>related to independence, have been fulfilled. (Ref: par. .A58)</i>
Acceptance and Continuance of Client Relationships and Audit Engagements					
22. The engagement partner should determine that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate. (Ref: par. A49–A52, A58)	<p>A49. SQMS No. 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.</p> <p>A50. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:</p> <ul style="list-style-type: none"><li>• The integrity and ethical values of the principal owners, key management, and those</li></ul>	.25 The engagement partner should <b>determine that the firm’s policies or procedures for</b> <del>be satisfied that appropriate procedures regarding</del> the acceptance and continuance of client relationships and attestation engagements have been followed and <del>should determine</del> that conclusions reached in this regard are appropriate. (Ref: par. .A37-.A38)			



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>charged with governance of the entity</p> <ul style="list-style-type: none"><li>• Whether sufficient and appropriate resources are available to perform the engagement</li><li>• Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement</li><li>• Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement</li><li>• Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement</li></ul> <p>A51. Under SQMS No. 1, for acceptance and continuance decisions, the firm is required to</p>		<p>.A37 Under SQMS No. 1, for acceptance and continuance</p>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>make judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.</p> <p><b>A52.</b> If the engagement partner is directly involved throughout the firm’s acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner’s determination that the firm’s</p>		<p><i>decisions, the firm is required to make judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and attestation engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.</i></p> <p><i>.A38 If the engagement partner is directly involved throughout the firm’s acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner’s</i></p>		

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	<p>policies or procedures have been followed and that the conclusions reached are appropriate.</p> <p><b>Considerations Specific to Governmental Audit Organizations (Ref: par. 22–24)</b></p> <p><b>A58.</b> When the auditor is a government audit organization, the auditor may be appointed in accordance with law or regulation, and the auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 22–24 and A48–A56 may be valuable to such auditors in performing risk assessments and in carrying out reporting responsibilities.</p>		<p><i>determination that the firm’s policies or procedures have been followed and that the conclusions reached are appropriate.</i></p>		
<p><b>23.</b> The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with GAAS and complying with the</p>	<p><b>A53.</b> Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this SAS and making informed decisions about appropriate courses of action. Such</p>	<p><b>26.</b> <i>The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the attestation engagement in accordance with the attestation standards and complying with the</i></p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
requirements of this SAS. (Ref: par. A53–A56)	<p>information may include the following:</p> <ul style="list-style-type: none"><li>• Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework</li><li>• The entity’s timetable for reporting, such as at interim and final stages</li><li>• In relation to group audits, the nature of the control relationships between the parent and its components</li><li>• Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will</li></ul>	<i>requirements of this section.</i> <i>(Ref: par. A39)</i>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>be directed, supervised, and reviewed</p> <p><b>A54.</b> Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other AU-C sections, as well as this SAS, for example, with respect to the following:</p> <ul style="list-style-type: none"><li>• Establishing an understanding of the terms of the audit engagement, as required by AU-C section 210, <i>Terms of Engagement</i></li><li>• Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with AU-C section 315 and AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i></li><li>• Understanding the group, its components, and their environments, in the case of an audit</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>of group financial statements in accordance with AU-C section 600, and directing, supervising, and reviewing the work of component auditors</p> <ul style="list-style-type: none"><li>• Determining whether, and how, to involve an auditor’s specialist in accordance with AU-C section 620</li><li>• The entity’s governance structure in accordance with AU-C section 260, <i>The Auditor’s Communication With Those Charged With Governance</i>, and AU-C section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i></li></ul> <p><b>A55.</b> Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor’s</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected noncompliance with laws and regulations to the proposed successor auditor.</p> <p><b>A56.</b> In circumstances in which the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.</p>		<p><i>.A39 In circumstances in which the firm is obligated by law or regulation to accept or continue an attestation engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.</i></p>		
<p><b>24.</b> If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm so that the firm and the</p>	<p><b>A57.</b> In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (for example, the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that</p>	<p><b>27.</b> If the engagement team becomes aware of information that may have caused the firm to decline the attestation engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to</p>			



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
engagement partner can take the necessary action. (Ref: par. A57)	the matter has been appropriately resolved, the firm's policies or procedures for resolving differences of opinion may be applicable.	<i>the firm so that the firm and the engagement partner can take the necessary action.</i>			
<b>Engagement Resources</b>					
<b>25.</b> The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: par. A59–A71, A74–A75, and A80)	<p><b>A59.</b> Under SQMS No. 1, the resources assigned or made available by the firm to support the performance of audit engagements include</p> <ul style="list-style-type: none"> <li>human resources,</li> <li>technological resources, and</li> <li>intellectual resources.</li> </ul> <p><b>A60.</b> Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances in which the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation, or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also</p>	<p><b>.35</b> The engagement partner should <del>be satisfied</del> <b>determine</b> that</p> <p><i>a. sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement (Ref: par. .A69-.A70)</i></p>		Paragraph .A69 is a direct lift from paragraph .A35 of the March 2023 draft of the proposed ISSA 5000. This is similar to paragraphs .A62-.A63 from SAS No. 146 but is more summarized.	

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>appointed by component management to perform audit procedures on behalf of the group engagement team. In such circumstances, the firm’s policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.</p> <p><b>A61.</b> A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.</p> <p><b>Human Resources</b> <b>A62.</b> Human resources include members of the engagement team (see also paragraphs A5 and A15–A21) and, when applicable, an auditor’s external specialist and individuals from within the entity’s internal audit function who provide direct assistance on the audit.</p>		<p>Engagement Resources (Ref: par. 36a)</p> <p><i>.A69 Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, where applicable, a practitioner’s external expert. Technological resources include technological tools that may allow the</i></p>		

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	<p><b>Technological Resources</b></p> <p><b>A63.</b> The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological resources may include tools that allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management’s assertions, which enhances the ability of the auditor to exercise professional skepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of technological resources may, however, increase the risk of overreliance on the information produced for decision-making purposes or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.</p>		<p><i>practitioner to more effectively and efficiently manage the engagement. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programs, templates, checklists or forms.</i></p>		

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	<p><b>A64.</b> The firm’s policies or procedures may include required considerations or responsibilities for the engagement team when using firm-approved technological tools to perform audit procedures and may require, depending on the tool used, the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.</p> <p><b>A65.</b> When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team’s instructions.</p> <p><b>A66.</b> The firm’s policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (for example, software that has not yet been specifically approved for use by the firm). Alternatively, the firm’s policies or procedures may require the engagement team to take certain actions before using</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>an IT application that is not firm approved to determine it is appropriate for use, for example, by requiring</p> <ul style="list-style-type: none"><li>the engagement team to have appropriate competence and capabilities to use the technological resource.</li><li>testing of the operation and security of the IT application.</li><li>specific documentation to be included in the audit file.</li></ul> <p><b>A67.</b> The engagement partner may exercise professional judgment in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application that has not been specifically approved for use by the firm is appropriate for use in the audit engagement include whether</p>				

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	<ul style="list-style-type: none"><li>• use and security of the IT application comply with the firm’s policies or procedures.</li><li>• the IT application operates as intended.</li><li>• personnel have the competence and capabilities required to use the IT application.</li></ul> <p><b>Intellectual Resources</b> <b>A68.</b> Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.</p> <p><b>A69.</b> The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm’s policies or procedures, to use the firm’s audit methodology</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific methodology or related guides and performance aids.</p> <p><b>Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. 25)</b>  <b>A70.</b> In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm’s related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm’s technological development, implementation, and maintenance programs when using firm-approved technology to perform audit procedures.</p>		<p>Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. 36a)</p> <p><b>.A70 In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm’s related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm’s technological development, implementation, and maintenance programs when using firm-approved technology to perform attestation procedures.</b></p>		



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	<p><b>A71.</b> The engagement partner may find it necessary to seek input from others with responsibilities for direction, supervision, and review to make the determinations required by paragraphs 25–27 of this SAS.</p> <p><b>Project Management</b></p> <p><b>A74.</b> In situations in which there are many engagement team members, for example, in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.</p> <p><b>A75.</b> Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example,</p>				

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	<ul style="list-style-type: none"><li>increasing the engagement team's ability to exercise professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism.</li><li>facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise.</li><li>monitoring the progress of the audit against the audit plan, including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources.</li><li>facilitating communication among</li></ul>				

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	<p>members of the engagement team, for example, coordinating arrangements with component auditors and auditor’s experts.</p> <p><b>Considerations Specific to Audits of Governmental Entities (Ref: par. 25–28)</b></p> <p><b>A80.</b> For audits of governmental entities, competence may include skills that are necessary to comply with applicable law or regulation, such as knowledge of <i>Government Auditing Standards</i> and an understanding of the applicable reporting requirements, including reporting to the legislature or other governing body or reporting in the public interest. The scope of a governmental audit may include, for example, additional requirements with respect to detecting misstatements that result from violations of provisions of contracts or grant agreements that could have a direct and material effect on the determination of financial statement amounts or the need to examine and report on</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	internal control over financial reporting or compliance.				
<p><b>26.</b> The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: par. A62 and A72–A75)</p>	<p><b>A72.</b> When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's</p> <ul style="list-style-type: none"> <li>• understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.</li> <li>• understanding of professional standards and applicable legal and regulatory requirements.</li> </ul>	<p><b>.36</b> The engagement partner should <del>be satisfied</del> <b>determine</b> that</p> <p><b>eb. members of</b> the engagement team, and any practitioner's external specialists <b>and internal auditors who provide direct assistance who are not part of the engagement team</b>, collectively, have the appropriate competence, including knowledge of the underlying subject matter and criteria, and capabilities, <b>including sufficient time to perform the engagement.</b> (Ref: par. <del>A61–A62.</del> <b>A71–.A73</b>)</p> <p><b>i. —</b> perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and</p>	<p><b>.A61A71</b> The practitioner may obtain knowledge about the specific underlying subject matter to which the procedures are to be applied and the criteria through formal or continuing education, practical experience, or consultation with others.</p> <p><b>.A62A72</b> When considering <b>determining that the engagement team has</b> the appropriate competence and capabilities <del>expected of those involved in the engagement</del>, the engagement partner may take into consideration such matters as <del>their</del> <b>the team's</b></p> <ul style="list-style-type: none"> <li>• understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.</li> <li>• understanding of professional standards and applicable legal and regulatory requirements.</li> </ul>		<p><b>.21d(ii).</b> <i>Determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement</i></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<ul style="list-style-type: none"><li>• expertise in specialized areas of accounting or auditing.</li><li>• expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.</li><li>• knowledge of relevant industries in which the entity being audited operates.</li><li>• ability to exercise professional skepticism and professional judgment.</li><li>• understanding of the firm’s policies or procedures.</li></ul>	<p><del>ii. enable the issuance of a practitioner’s report that is appropriate in the circumstances.</del></p>	<ul style="list-style-type: none"><li>• technical expertise, including expertise <del>with relevant</del> <b>in IT <i>used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement</i></b> and specialized areas relevant to the underlying subject matter.</li><li>• knowledge of relevant industries in which the entity operates.</li><li>• ability to <del>apply</del> <b>exercise professional skepticism and</b> professional judgment.</li><li>• understanding of the firm’s <del>quality control policies and</del> <b>or</b> procedures.</li></ul> <p><del>.A64</del><b>.A73</b> Under <del>QM section 10</del><b>QM section 10</b>, the firm <b><i>is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. QM section 10 also</i></b></p>	<p>Paragraph .A73 is consistent with paragraph .A82 of SAS No. 146. Task Force concluded that the guidance better suited this requirement paragraph.</p>	

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
			<i>requires that such direction, supervision, and review be planned and performed on the basis that the work performed by less experienced members of the engagement team be directed, supervised, and reviewed by more 's review responsibility policies and procedures are determined on the basis that suitably experienced team members. review the work of other team members. The engagement partner may delegate part of the review responsibility to other members of the engagement team, in accordance with the firm's system of quality control.</i>		
<b>27.</b> If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: par. A76–A79)	<b>A76.</b> SQMS No. 1 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognizes and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. SQMS No. 1 also addresses the firm's responsibilities for planning for resource needs and obtaining,	<b>.37</b> If, as a result of complying with the requirements in subparagraphs .37a and .37b, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the attestation engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>allocating, or assigning resources in a manner that is consistent with the firm’s commitment to quality. However, in certain circumstances, the firm’s financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner’s responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.</p> <p><b>A77.</b> In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management, or the firm to make sufficient and appropriate resources available.</p> <p><b>A78.</b> The engagement partner’s determination of whether additional engagement level</p>	<p>resources to the engagement. (Ref: par. .A75-.A76)</p>	<p><i>.A75 The engagement partner’s determination of whether additional engagement level</i></p>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	resources are required is a matter of professional judgment and is influenced by the requirements of this SAS and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39c. For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply		<i>resources are required is a matter of professional judgment and is influenced by the requirements of this section and the nature and circumstances of the engagement. In certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph .37 and paragraph 51c. For example, if an attestation software program provided by the firm has not incorporated new or revised procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement.</i>		



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>with the new regulation in the performance of the audit engagement.</p> <p><b>A79.</b> If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:</p> <ul style="list-style-type: none"> <li>• Changing the planned approach to the nature, timing, and extent of direction, supervision, and review (see also paragraph A94)</li> <li>• Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation</li> <li>• Following the firm’s policies or procedures for resolving differences of opinion if the engagement partner</li> </ul>		<p><i>.A76 If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:</i></p> <ul style="list-style-type: none"> <li>• <i>Changing the planned approach to the nature, timing, and extent of direction, supervision, and review</i></li> <li>• <i>Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation</i></li> <li>• <i>Following the firm’s policies or procedures for resolving differences of opinion if the engagement partner does not obtain the</i></li> </ul>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>does not obtain the necessary resources for the audit engagement</p> <ul style="list-style-type: none"> <li>Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation</li> </ul>		<p><i>necessary resources for the engagement</i></p> <ul style="list-style-type: none"> <li><i>Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation</i></li> </ul>		
<b>28.</b> The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: par. A63–A69)		<b>.38</b> The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the attestation engagement.			
<b>Engagement Performance</b>					
<b>Direction, Supervision, and Review</b>					
<b>29.</b> The engagement partner should take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: par. A81)	<b>A81.</b> When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's	<p><b>.40</b> The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following (<b>Ref: par. .A80</b>):</p> <ul style="list-style-type: none"> <li>b. Appropriate engagement documentation being maintained to provide</li> </ul>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing, and extent of direction, supervision, and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.	evidence of achievement of the practitioner's objectives and that the engagement was performed in accordance with the attestation standards and relevant legal and regulatory requirements <b><i>The direction and supervision of the members of the engagement team and the review of their work</i></b>			
<p><b>30.</b> The engagement partner should determine that the nature, timing, and extent of direction, supervision, and review are (Ref: par. A82–A90 and A95–A98)</p> <p><i>a.</i> planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and</p>	<b>A82.</b> Under SQMS No. 1, the firm is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. SQMS No. 1 also requires that such direction, supervision, and review be planned and performed on the basis that the work performed by less experienced members of the engagement team be directed, supervised, and reviewed by more experienced engagement team members.	<p><b>.36</b> The engagement partner should be satisfied <b>determine</b> that</p> <p><i>c. the nature, timing, and extent of direction, supervision, and review are (Ref: par. .A66)</i></p> <p><i>i. planned and performed in accordance with the firm's policies or procedures, professional standards, and</i></p>		The Task Force “hung” the equivalent of paragraph .A82 of SAS No. 146 off paragraph .37b of the proposed QM SSAE.	

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.</p>	<p><b>A83.</b> Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing, and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision, and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm’s policies or procedures and engagement-specific responses.</p> <p><b>A84.</b> The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this SAS and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.</p>	<p><i>applicable legal and regulatory requirements, and</i></p> <p><i>ii. responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm</i></p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p><b>A85.</b> Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision, and review in accordance with paragraph 30.</p> <p><i>Direction</i></p> <p><b>A86.</b> Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as the following:</p> <ul style="list-style-type: none"><li>• Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication, and actions</li><li>• Maintaining a questioning mind and being aware of unconscious or conscious auditor biases</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>in maintaining professional skepticism when gathering and evaluating audit evidence (see paragraph A35)</p> <ul style="list-style-type: none"><li>• Fulfilling relevant ethical requirements</li><li>• The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement</li><li>• The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise, and review the work of less experienced engagement team members</li><li>• Understanding the objectives of the work to be performed and the detailed instructions regarding the nature,</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>timing, and extent of planned audit procedures as set forth in the overall audit strategy and audit plan</p> <ul style="list-style-type: none"><li>Addressing threats to the achievement of quality, and the engagement team's expected response, for example, the threat that budget constraints or resource constraints result in the engagement team members inappropriately modifying planned audit procedures or failing to perform planned audit procedures</li></ul> <p><i>Supervision</i> <b>A87.</b> Supervision may include matters such as the following:</p> <ul style="list-style-type: none"><li>Tracking the progress of the audit engagement, which includes monitoring<ul style="list-style-type: none"><li>the progress against the audit plan,</li></ul></li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>— whether the objective of work performed has been achieved, and</p> <p>— the ongoing adequacy of assigned resources</p> <ul style="list-style-type: none"><li>• Taking appropriate action to address issues arising during the engagement, including, for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated</li><li>• Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement</li><li>• Providing coaching and on-the-job training to help engagement team members develop skills or competencies</li></ul>				



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<ul style="list-style-type: none"><li>• Creating an environment where engagement team members raise concerns without fear of reprisals</li></ul> <p><i>Review</i></p> <p><b>A88.</b> Review of the engagement team’s work provides support for the conclusion that the requirements of this SAS have been addressed.</p> <p><b>A89.</b> Review of the engagement team’s work consists of consideration of whether, for example,</p> <ul style="list-style-type: none"><li>• the work has been performed in accordance with the firm’s policies or procedures, professional standards, and applicable legal and regulatory requirements;</li><li>• significant matters have been raised for further consideration;</li><li>• appropriate consultations have</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>taken place, and the resulting conclusions have been documented and implemented;</p> <ul style="list-style-type: none"><li>there is a need to revise the nature, timing, and extent of work performed;</li><li>the work performed supports the conclusions reached and is appropriately documented;</li><li>the evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and</li><li>the objectives of the audit procedures have been achieved.</li></ul> <p><b>A90.</b> The firm's policies or procedures may contain specific requirements regarding</p> <ul style="list-style-type: none"><li>the nature, timing, and extent of review of audit documentation;</li></ul>				

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	<ul style="list-style-type: none"><li>different types of review that may be appropriate in different situations (for example, review of each individual working paper or selected working papers); and</li><li>which members of the engagement team are required to perform the different types of review.</li></ul> <p><i>Nature, Timing, and Extent</i> <b>A95.</b> The nature, timing, and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm’s policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm’s policies or procedures may include the following:</p> <ul style="list-style-type: none"><li>Work planned to be performed at an interim date is to be directed, supervised, and reviewed at the same time as the</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>performance of the procedures, rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.</p> <ul style="list-style-type: none"><li>• Certain matters are to be reviewed by the engagement partner, and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.</li></ul> <p><i>Scalability</i> <b>A96.</b> The following are examples of factors that may influence the firm’s approach to direction, supervision, and review:</p> <ul style="list-style-type: none"><li>• The engagement team member’s previous experience with the entity and the area to be audited. For example, if the work related to the entity’s information system is being performed by the same engagement team member who</li></ul>				

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	<p>performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less, and the review of the related working papers may be less detailed.</p> <ul style="list-style-type: none"><li>• The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater, and the review of the related working papers may be more detailed.</li><li>• The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.</p> <ul style="list-style-type: none"><li>• The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.</li><li>• The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>supplemented by in-person interactions.</p> <ul style="list-style-type: none"><li>• The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centers and the review of their work may<ul style="list-style-type: none"><li>— be more formalized and structured than when members of the engagement team are all situated in the same location or</li><li>— use IT to facilitate the communication between the members of the engagement team.</li></ul></li></ul> <p><b>A97.</b> Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing, or extent of direction, supervision, or review. For example, if the assessed risk of material misstatement at the</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.</p> <p><b>A98.</b> In accordance with paragraph 30<i>b</i>, the engagement partner is required to determine that the approach to direction, supervision, and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.</p>				
<p><b>31.</b> The engagement partner should review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to (Ref: par. A91–A94)</p> <p>a. significant matters;</p>	<p><b>A91.</b> As required by AU-C section 300, the engagement partner reviews the overall audit strategy and audit plan. As required by AU-C section 230, the engagement partner documents the date and extent of the review.</p> <p><b>A92.</b> Timely review of documentation by the</p>	<p><i>.41 In an examination or review engagement, the engagement partner should review engagement documentation at appropriate points in time during the engagement, including documentation relating to:</i></p>			



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>b. significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and</p> <p>c. other matters that, in the engagement partner’s professional judgment, are relevant to the engagement partner’s responsibilities.</p>	<p>engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner’s satisfaction on or before the date of the auditor’s report. The engagement partner need not review all audit documentation. The engagement partner exercises professional judgment in determining the extent of documentation to be reviewed, for example, when determining the nature and extent of the review of component auditor documentation in a group audit.</p> <p><b>A93.</b> The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm’s policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the</p>	<p><b>a. significant matters;</b></p> <p><b>b. significant judgments, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and</b></p> <p><b>c. other matters that, in the engagement partner’s professional judgment, are relevant to the engagement partner’s responsibilities.</b></p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>engagement team. Examples follow:</p> <ul style="list-style-type: none"> <li>• Matters related to planning the engagement, such as matters related to determining materiality</li> <li>— The composition of the engagement team, including                             <ul style="list-style-type: none"> <li>o personnel using expertise in a specialized area of accounting or auditing</li> <li>o the use of personnel from service delivery centers</li> </ul> </li> <li>— The decision to involve an auditor’s specialist, including the decision to involve an external specialist</li> <li>• The engagement team’s consideration of information obtained in the acceptance and continuance process</li> </ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>and proposed responses to that information</p> <ul style="list-style-type: none"><li>• The engagement team's risk assessment process, including situations in which consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team</li><li>• The engagement team's consideration of related party relationships and transactions and disclosures</li><li>• Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions concerning certain accounting estimates, accounting policies, or going concern considerations</li><li>• The engagement team's evaluation of the work performed by specialists</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>and conclusions drawn therefrom</p> <ul style="list-style-type: none"><li>• In group audit situations,<ul style="list-style-type: none"><li>— the proposed overall group audit strategy and group audit plan;</li><li>— decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and</li><li>— the evaluation of work performed by component auditors and the conclusions drawn therefrom</li></ul></li><li>• How matters affecting the overall audit strategy and audit plan have been addressed</li><li>• The significance and disposition of corrected</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>and uncorrected misstatements identified during the engagement</p> <ul style="list-style-type: none"><li>• The proposed audit opinion and matters to be communicated in the auditor’s report, for example, key audit matters, or a “Material Uncertainty Related to Going Concern” paragraph</li></ul> <p><b>A94.</b> The engagement partner exercises professional judgment in determining other matters to review, for example, based on</p> <ul style="list-style-type: none"><li>• the nature and circumstances of the audit engagement.</li><li>• which engagement team member performed the work.</li><li>• matters relating to recent inspection findings.</li><li>• the requirements of the firm’s policies or procedures.</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<b>32.</b> On or before the date of the auditor’s report, the engagement partner should determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: par. A91–A95)	<p><b>A95.</b> The nature, timing, and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm’s policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm’s policies or procedures may include the following:</p> <ul style="list-style-type: none"><li>• Work planned to be performed at an interim date is to be directed, supervised, and reviewed at the same time as the performance of the procedures, rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.</li><li>• Certain matters are to be reviewed by the engagement partner, and the firm may specify the circumstances or engagements in which such matters are</li></ul>	<p><b>42.</b> <i>In an examination or review engagement, on or before the date of the practitioner’s report, the engagement partner should determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the practitioner’s report to be issued.</i></p>		<p><b>Note:</b> In SSARS, the equivalent of the SAS No. 146 requirement is included in AR-C section 90, as follows:</p> <p><b>.47</b> The accountant should evaluate whether sufficient appropriate review evidence has been obtained from the procedures performed and, if sufficient appropriate review evidence has not been obtained from the procedures performed, the accountant should perform other procedures that, in the accountant’s professional judgment, are necessary in the circumstances to be able to form a conclusion on the financial statements. (Ref: par. .A78)</p>	

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	expected to be reviewed.				
<b>33.</b> Prior to dating the auditor’s report, the engagement partner should review the financial statements and the auditor’s report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.		<b>43.</b> <i>Prior to dating the practitioner’s report, the engagement partner should review practitioner’s report and related engagement documentation, to determine that the report to be issued will be appropriate in the circumstances.</i>			
<b>34.</b> The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. A99)	<b>A99.</b> The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.	<b>44.</b> <i>The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. .A81)</i>	<b>.A81</b> <i>The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the engagement.</i>		
<b>Consultation</b>					
<b>35.</b> The engagement partner should do the following: (Ref: par. A100–A103)	<b>A100.</b> SQMS No. 1 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may	<b>.40</b> The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following <b>(Ref: par. .A80):</b>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>a. Take responsibility for the engagement team undertaking consultation on</p> <p>i. difficult or contentious matters and matters on which the firm’s policies or procedures require consultation and</p> <p>ii. other matters that, in the engagement partner’s professional judgment, require consultation.</p> <p>b. Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team and between the engagement team and others at the</p>	<p>be appropriate or required, for example, for</p> <ul style="list-style-type: none"> <li>issues that are complex or unfamiliar (for example, issues related to an accounting estimate with a high degree of estimation uncertainty),</li> <li>significant risks,</li> <li>significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual,</li> <li>limitations imposed by management, and</li> <li>noncompliance with laws or regulations.</li> </ul> <p><b>A101.</b> Effective consultation on significant technical, ethical, and other matters within the firm or, where applicable, outside the firm, may be achieved when those consulted</p> <ul style="list-style-type: none"> <li>are given all the relevant facts that will</li> </ul>	<p>ec. <del>Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.</del> <b>The engagement team undertaking consultation on</b></p> <p><b>(i) difficult or contentious matters and matters on which the firm’s policies or procedures require consultation and</b></p> <p><b>(ii) other matters that, in the engagement partner’s professional judgment, require consultation.</b></p> <p><b>.36</b> The engagement partner should be satisfied <b>determine</b> that</p> <p><b>d. With respect to consultation:</b></p>			



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>appropriate level within or outside the firm.</p> <p>c. Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.</p> <p>d. Determine that conclusions agreed have been implemented.</p>	<p>enable them to provide informed advice and</p> <ul style="list-style-type: none"> <li>have appropriate knowledge, seniority, and experience.</li> </ul> <p><b>A102.</b> It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, in areas where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.</p> <p><b>A103.</b> The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.</p>	<p><i>i. members of the engagement team have undertaken appropriate consultation during the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.</i></p> <p><i>ii. the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.</i></p> <p><i>iii. conclusions agreed have been implemented.</i></p>			
<b>Engagement Quality Review</b>					
<b>36.</b> For audit engagements for which an engagement quality review is required, the engagement partner should (Ref: par. A104)	<b>A104.</b> SQMS No. 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with SQMS No. 2, <i>Engagement Quality Reviews</i> , and requiring an	<del>.4560</del> For those engagements, if any, for which the firm has determined that an engagement quality control review is required, <b>the</b>	<del>.A90</del> <b>SQMS No. 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with SQMS No. 2, Engagement Quality</b>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p><i>a.</i> determine that an engagement quality reviewer has been appointed.</p> <p><i>b.</i> cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.</p> <p><i>c.</i> discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer.</p>	<p>engagement quality review for certain types of engagements. SQMS No. 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer’s responsibilities relating to performing and documenting an engagement quality review.</p>	<p><b><i>engagement partner should</i></b> (Ref: par. .A67A90)</p> <p><i>a. determine that an engagement quality reviewer has been appointed.</i></p> <p><i>b. cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.</i></p> <p><i>c. the engagement partner should take responsibility for discussing with the engagement quality control reviewer significant <b>matters and significant judgements</b> findings or issues arising during the engagement, including those identified during the engagement quality control review, <b>with the engagement quality reviewer</b> and should not release the practitioner’s report until completion of the</i></p>	<p><b><i>Reviews, and requiring an engagement quality review for certain types of engagements. SQMS No. 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer’s responsibilities relating to performing and documenting an engagement quality review.</i></b></p> <p><del>A67</del> Other matters that may be considered in an engagement quality control review include the following:</p> <p><i>a.</i> The engagement team’s evaluation of the firm’s independence in relation to the engagement</p> <p><i>b.</i> Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations</p> <p><i>c.</i> Whether engagement documentation selected for review reflects the work performed in</p>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>d. not release the auditor’s report until the completion of the engagement quality review. (Ref: par. A105–A107)</p>	<p><b>A105.</b> AU-C section 700 requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements. If applicable to the audit engagement, SQMS No. 2 and this SAS require that the engagement partner be precluded from releasing the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgments made by the engagement team or that the conclusions reached thereon were not appropriate, then the engagement quality review is not complete.</p> <p><b>A106.</b> An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the</p>	<p>engagement quality control review and</p> <p>d. <b><i>not release the practitioner’s report until completion of the engagement quality review</i></b></p> <p><del>b. the engagement quality control reviewer should perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. This evaluation should include the following:</del></p> <p><del>i. Discussion of significant findings or issues with the engagement partner</del></p> <p><del>ii. Reading the written subject matter information (or assertion) and</del></p>	<p><del>relation to the significant judgments and supports the conclusions reached</del></p>		

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>engagement quality reviewer’s satisfaction on or before the date of the auditor’s report.</p> <p><b>A107.</b> Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.</p>	<p>the proposed report</p> <p>iii. Reading selected engagement documentation relating to the significant judgments the engagement team made and the related conclusions it reached</p> <p>iv. Evaluation of the decisions reached in formulating the report and consideration of whether the proposed report is appropriate</p>			
<b>Differences of Opinion</b>					
<b>37.</b> If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management, including those	<p><b>A108.</b> SQMS No. 1 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team or between the engagement team and the engagement quality reviewer or individuals</p>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
who provide consultation, the engagement team should follow the firm’s policies or procedures for dealing with and resolving such differences of opinion. (Ref: par. A108–A109)	<p>performing activities within the firm’s system of quality management. SQMS No. 1 also requires that differences of opinion be brought to the attention of the firm and resolved. For example, a component auditor may be instructed to communicate differences of opinion to the group engagement team.</p> <p><b>A109.</b> In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example,</p> <ul style="list-style-type: none"><li>• seeking legal advice or</li><li>• withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.</li></ul>				
<b>38.</b> The engagement partner should a. take responsibility for differences of opinion being addressed and resolved in					

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>accordance with the firm's policies or procedures.</p> <p><i>b. determine that conclusions reached are documented and implemented.</i></p> <p><i>c. not date the auditor's report until any differences of opinion are resolved.</i></p>					
<b>Monitoring and Remediation</b>					
<p><b>39.</b> The engagement partner should take responsibility for the following: (Ref: par. A110–A113)</p> <p><i>a.</i> Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms</p> <p><i>b.</i> Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39<i>a</i> and taking appropriate action</p> <p><i>c.</i> Remaining alert throughout the audit engagement for information that may be relevant to the</p>	<p><b>A110.</b> SQMS No. 1 sets out requirements for the firm's monitoring and remediation process. SQMS No. 1 requires the firm to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities. Further, information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgment and maintaining professional skepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.</p>	<p><b>.51</b> <i>The engagement partner should take responsibility for the following: (Ref: par. .A87)</i></p> <p><i>a. Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms</i></p> <p><i>b. Determining the relevance and effect on the engagement of the information referred to in subparagraph a and</i></p>			<p><b>.29</b> <i>The engagement partner should take responsibility for the following:</i></p> <p><i>a. Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms</i></p> <p><i>b. Determining the relevance and effect on the engagement of the information referred to in paragraph .29a and</i></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
firm's monitoring and remediation process and communicating such information to those responsible for the process	<p><b>A111.</b> Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office, or inspection results of previous audits of the entity.</p> <p><b>A112.</b> In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that</p> <ul style="list-style-type: none"> <li>an auditor's specialist is needed or</li> </ul>	<p><i>taking appropriate action</i></p> <p><i>c. Remaining alert throughout the engagement for information that may be relevant to the firm's monitoring and remediation process and communicating such information to those responsible for the process</i></p>	<p><i>.A87 In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that</i></p> <ul style="list-style-type: none"> <li><i>a practitioner's specialist is needed or</i></li> </ul>		<p><i>taking appropriate action</i></p> <p><i>Remaining alert throughout the engagement for information that may be relevant to the firm's monitoring and remediation process and communicating such information to those responsible for the process</i></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<ul style="list-style-type: none"><li>the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the audit where deficiencies have been identified.</li></ul> <p>If an identified deficiency does not affect the quality of the audit (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.</p> <p><b>A113.</b> A deficiency in the firm’s system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the auditor’s report was not appropriate in the circumstances.</p>		<ul style="list-style-type: none"><li><i>the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the engagement where deficiencies have been identified.</i></li></ul> <p><i>If an identified deficiency does not affect the quality of the engagement (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.</i></p>		
<b>Taking Overall Responsibility for Managing and Achieving Quality</b>					
<b>40.</b> Prior to dating the auditor’s report, the engagement partner should determine that the engagement partner has taken overall responsibility for managing and achieving quality	<b>A114.</b> SQMS No. 1 requires the firm to establish a quality objective addressing the engagement team’s understanding and fulfillment of their responsibilities in				



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p>on the audit engagement. In doing so, the engagement partner should determine that (Ref: par. A113–A116)</p> <p>a. the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement.</p> <p>b. the nature and circumstances of the audit engagement, any changes thereto, and the firm’s related policies or procedures have been taken into account in complying with the requirements of this SAS.</p>	<p>connection with the engagement. SQMS No. 1 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.</p> <p><b>A115.</b> Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this SAS, given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner’s involvement throughout the audit engagement, as described in paragraph A118.</p> <p><b>A116.</b> Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example, the following:</p> <ul style="list-style-type: none"><li>• Lack of timely review by the engagement partner of the audit</li></ul>				

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<p>engagement planning, including reviewing the assessment of risks of material misstatement and the design of responses to those risks toward the end of the audit</p> <ul style="list-style-type: none"><li>• Evidence that assignees were not provided necessary instructions and relevant information, such as not being adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned, and the objectives thereof</li><li>• A lack of evidence of the engagement partner’s direction and supervision of the other members of the engagement team and the review of their work</li></ul> <p><b>A117.</b> If the engagement partner’s involvement does not provide the basis for determining that the significant judgments made and the conclusions</p>				

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	<p>reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to taking into account firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example,</p> <ul style="list-style-type: none"><li>• updating and changing the audit plan,</li><li>• reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner, or</li><li>• consulting with personnel assigned operational responsibility for the relevant aspect of the firm’s system of quality management.</li></ul>				
Documentation					

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
<p><b>41.</b> In applying AU-C section 230, <i>Audit Documentation</i>, the auditor should include the following in the audit documentation: (Ref: par. A118–A121)</p> <p><i>a.</i> Significant issues identified, relevant discussions with personnel, and conclusions reached with respect to</p> <p><i>i.</i> fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence</p> <p><i>ii.</i> the acceptance and continuance of the client relationship and audit engagement</p> <p><i>b.</i> The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and</p>	<p><b>A118.</b> In accordance with AU-C section 230 audit documentation provides evidence that the audit complies with GAAS. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (such as in a checklist) compliance with matters for which compliance is demonstrated by documents included within the audit file.</p> <p><b>A119.</b> Documentation of the performance of the requirements of this SAS, including evidencing the involvement of the engagement partner and the engagement partner’s determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. Examples follow:</p> <ul style="list-style-type: none"> <li>• Direction of the engagement team can be documented through sign-offs of the audit plan and project management activities.</li> </ul>	<p><b>AT-C section 205</b></p> <p><b>.89</b> The practitioner should prepare engagement documentation that is sufficient to determine the following: (Ref: par. .A127-.A130)</p> <p><i>a.</i> The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including the following:</p> <p><i>i.</i> The identifying characteristics of the specific items or matters tested</p> <p><i>ii.</i> Who performed the engagement work and the date such work was completed</p> <p><i>iii.</i> The discussions with the responsible party or others about findings or issues</p>			<p><b>AR-C section 90</b></p> <p><b>.139</b> In documenting the nature, timing, and extent of procedures performed as required in this section, the accountant should record the following:</p> <p><i>a.</i> Who performed the work and the date such work was completed</p> <p><i>b.</i> Who reviewed the work performed <del>for the purpose of quality control for the engagement</del> and the date and extent of the review</p> <p><i>c.</i> <b><i>If the review engagement is subject to an engagement quality review</i></b></p> <p><i>i.</i> <b><i>the identity of the engagement quality reviewer for the engagement</i></b></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
how such conclusions were implemented  c. If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed before the release of the auditor's report	<ul style="list-style-type: none"><li>Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency, and effectiveness of the engagement partner's communications and other actions regarding culture and expected behaviors that demonstrate the firm's commitment to quality.</li><li>Agendas from discussions between the engagement partner and other members of the engagement team and, when applicable, the engagement quality reviewer, and related sign-offs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team.</li></ul>	<p>that, in the practitioner's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place</p> <p>iv. When the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations or that the written representations are otherwise not</p>			<p><i>and the date and extent of such review and</i></p> <p><i>that the engagement quality review has been completed before the release of the accountant's review report</i></p>

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
	<ul style="list-style-type: none"><li>Sign-offs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.</li></ul> <p><b>A120.</b> When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional skepticism, and the documentation of the auditor’s consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.</p> <p><b>A121.</b> Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of</p> <ul style="list-style-type: none"><li>the nature and scope of the issue on</li></ul>	<p>reliable, the matters in paragraph .56</p> <p>v. When the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .51, the oral responses from the responsible party to the practitioner’s inquiries regarding the matters in paragraph .51, in accordance with paragraph .52</p> <p>vi. Who reviewed the engagement work performed and the date and extent of such review</p> <p>vii. If the practitioner identified information that is inconsistent with</p>			

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	<p>which consultation was sought and</p> <ul style="list-style-type: none"> <li>the results of the consultation, including any decisions taken, the basis for those decisions, and how they were implemented.</li> </ul>	<p>the practitioner’s final opinion regarding a significant matter, how the practitioner addressed the inconsistency</p> <p>b. The results of the procedures performed and the evidence obtained</p> <p>c. <i>If the examination engagement is subject to an engagement quality review</i></p> <p>i. <i>the identity of the engagement quality reviewer for the engagement and the date and extent of such review and</i></p> <p>ii. <i>that the engagement quality review has been completed before the release of the practitioner’s</i></p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		<p><i>examination report</i></p> <p><b>AT-C section 210</b></p> <p><b>.65</b> The practitioner should prepare engagement documentation that is sufficient to determine the following: (Ref: par. .A106-.A109)</p> <p><i>a.</i> The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including the following:</p> <p><i>i.</i> The identifying characteristics of the specific items or matters tested</p> <p><i>ii.</i> Who performed the engagement work and the date such work was completed</p> <p><i>iii.</i> The discussions with the responsible party</p>			



Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		<p>or others about findings or issues that, in the practitioner’s professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place</p> <p>iv. When the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written</p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		<p>representations are otherwise not reliable, the matters in paragraph .38</p> <p>v. When the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .33, the oral responses from the responsible party to the practitioner’s inquiries regarding the matters in paragraph .33, in accordance with paragraph .34</p> <p>vi. Who reviewed the engagement work performed and the date and extent of such review</p> <p>vii. If the practitioner identified</p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		<p>information that is inconsistent with the practitioner's final conclusion regarding a significant matter, how the practitioner addressed the inconsistency</p> <p>b. The results of the procedures performed and the review evidence obtained</p> <p>c. <i>If the review engagement is subject to an engagement quality review</i></p> <p>i. <i>the identity of the engagement quality reviewer for the engagement and the date and extent of such review and</i></p> <p>ii. <i>that the engagement quality review has been completed before the release of the</i></p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		<p><i>practitioner's review report</i></p> <p><b>AT-C section 215</b></p> <p><b>.42</b> The practitioner should prepare engagement documentation on a timely basis that includes the following: (Ref: par. .A75-.A76)</p> <p><i>a.</i> The written agreement and acknowledgment from the engaging party regarding the appropriateness of the procedures performed for the intended purpose of the engagement, as required by paragraph .22</p> <p><i>b.</i> The nature, timing, and extent of the procedures performed to comply with relevant sections and applicable legal and regulatory requirements, including the following:</p> <p><i>i.</i> The identifying characteristics of</p>			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		the specific items or matters tested  ii. Who performed the engagement work and the date such work was completed  iii. When the appropriate party will not provide one or more of the requested written representations pursuant to paragraphs .27-.28 or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the matters in paragraph .30a-c  iv. Who reviewed the engagement work			

Requirements in SAS 146	SAS 146 Application Paragraphs	Proposed Requirements in AT-C section 105	Proposed Application Guidance in AT-C section 105	Comments	Requirements in SSARS 26
		<p>performed and the date and extent of such review</p> <p>c. The results of the procedures performed and the evidence obtained</p> <p>d. <i>If the agreed-upon procedures engagement is subject to an engagement quality review</i></p> <p>i. <i>the identity of the engagement quality reviewer for the engagement and the date and extent of such review and</i></p> <p>ii. <i>that the engagement quality review has been completed before the release of the practitioner's agreed-upon procedures report</i></p>			

Definitions

Definitions in SAS 146	SAS 146 Application Paragraphs	Proposed Definitions in AT-C section 105	Proposed Application Guidance	Comments
<p><b>Engagement partner.</b><sup>4</sup> The partner or other individual appointed by the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal, or regulatory body.</p> <p><sup>4</sup> <i>Engagement partner, partner, and firm</i> refer to their governmental equivalents when relevant.</p> <p><b>Engagement quality review.</b> An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.</p> <p><b>Engagement quality reviewer.</b> A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.</p> <p><b>Engagement team.</b> All partners and staff performing the audit engagement and any other individuals who perform audit</p>		<p><b>Engagement partner.</b><sup>6</sup> The partner or other person in <b><i>individual appointed by</i></b> the firm who is responsible for the attestation engagement and its performance and for the practitioner’s report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body. <del><i>Engagement partner, partner, and firm</i></del> refer to their governmental equivalents when relevant. <b>(Ref: par. A17)</b></p> <p><sup>6</sup> <b>Engagement partner, partner, and firm</b> refer to their governmental equivalents when relevant.</p> <p><i>Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.</i></p> <p><i>Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.</i></p> <p><b>Engagement team.</b> All partners and staff performing the engagement and any <b>other</b> individuals engaged by the firm or a network firm who perform attestation</p>	<p>A17. <b><i>Practitioners are subject to Appendix B to the AICPA Code of Professional Conduct, “Council Resolution Concerning the Form of Organization and Name Rule,” which states that there must be a CPA who has ultimate responsibility for all examination, review, or agreed-upon procedures engagements, and non-CPA owners could not assume ultimate responsibility for any such engagements. Law or regulation may include additional requirements.</i></b></p> <p>A18 <b><i>If the attestation engagement is subject to an engagement quality</i></b></p>	<p>The ARSC determined to add the application language off of the defined term <i>engagement partner</i>. Note that the application guidance is not included in SAS 146.</p> <p>ASB agreed that it is appropriate to include the application paragraph in the proposed revisions to AT-C section 105 (January 2023).</p> <p>The Task Force added the phrase “including an other practitioner but” to clarify that an <i>other</i></p>

Definitions in SAS 146	SAS 146 Application Paragraphs	Proposed Definitions in AT-C section 105	Proposed Application Guidance	Comments
<p>procedures on the engagement, excluding an auditor’s external specialist<sup>5</sup> and internal auditors who provide direct assistance on an engagement.<sup>6</sup> (Ref: par. A15–A25)</p> <p><sup>5</sup> Paragraph .06 of AU-C section 620, <i>Using the Work of an Auditor’s Specialist</i>, defines the term <i>auditor’s specialist</i>.</p> <p><sup>6</sup> AU-C section 610, <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance.</p> <p><b>Firm.</b> A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in public practice. (Ref: par. A26)</p> <p><b>Inspection.</b> Inspection is an evaluation of the adequacy of aspects of the firm’s quality management policies and procedures, its personnel’s understanding of those policies and procedures, and the extent of the firm’s compliance with them.</p> <p><b>Network.</b> As defined in “Definitions” (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: par. A27)</p>		<p>procedures on the engagement, <b><i>including an other practitioner but, This excludes excluding</i></b> a practitioner’s external specialist and engagement quality control reviewer engaged by the firm or a network firm. The term <b><i>engagement team</i></b> also excludes individuals within the client’s internal audit function <b><i>internal auditors</i></b> who provide direct assistance <b><i>on an engagement.</i></b><sup>7</sup>(Ref: par. .A18)</p> <p><sup>7</sup> Paragraphs .40-.45 of AT-C section 205 <b><i>establishes limits on the use of direct assistance in an examination engagement.</i></b></p> <p><b>Firm.</b> A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting. (Ref: par. A20)</p> <p><b>Inspection.</b> <i>Inspection is an evaluation of the adequacy of aspects of the firm’s quality management policies and procedures, its personnel’s understanding of those policies and procedures, and the extent of the firm’s compliance with them.</i></p> <p><b>Network.</b> <i>As defined in “Definitions” (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: par. A20)</i></p>	<p><b><i>review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.</i></b></p> <p>Firm, “Network, and “Network Firm (Ref: par. .12)</p> <p>A20. <b><i>The definitions of firm, network, or network firm in relevant ethical requirements may differ from those set out in this section. The AICPA code also provides guidance in relation to the terms network and network firm. Networks and other network firms may be structured in a variety of ways and are, in all cases, external to the firm. The provisions in this section in relation to networks also apply to any structures or organizations that do not form part of the firm but that exist within the network.</i></b></p>	<p><i>practitioner</i> would be part of the engagement team. The Task Force believes that this is important to understand for practitioners performing attestation engagements.</p> <p>Application paragraph added (consistent with paragraph .A20 from SAS No. 146) pursuant to ASB request (January 2023)</p> <p>No need for a footnote similar to footnote 5 in SAS No. 146 as <i>practitioner’s specialist</i> is defined in AT-C section 105 (so the definition is in the same paragraph as the proposed new defined terms).</p>



Definitions in SAS 146	SAS 146 Application Paragraphs	Proposed Definitions in AT-C section 105	Proposed Application Guidance	Comments
<p><b>Network firm.</b> As defined in “Definitions” (ET sec. 0.400) in the AICPA code, a firm or other entity that belongs to a network. References to a <i>network firm</i> are to be read hereafter as “another firm or entity that belongs to the same network as the firm.” (Ref: par. A27)</p> <p><b>Partner.</b> Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, <i>partner</i> may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.</p> <p><b>Personnel.</b> Partners and staff in the firm.</p> <p><b>Professional standards.</b> Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code, or by other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.</p>		<p><b>Network firm.</b> <i>As defined in “Definitions” (ET sec. 0.400) in the AICPA code, A a firm or other entity that belongs to a network, as defined in ET section 0.400, Definitions. References to a network firm are to be read hereafter as “another firm or entity that belongs to the same network as the firm.” (Ref: par. A20)</i></p> <p><b>Partner.</b> <i>Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.</i></p> <p><b>Personnel.</b> <i>Partners and staff in the firm.</i></p> <p><b>Professional standards.</b> <i>Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code, or by other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.</i></p>		

Definitions in SAS 146	SAS 146 Application Paragraphs	Proposed Definitions in AT-C section 105	Proposed Application Guidance	Comments
<p><b>Relevant ethical requirements.</b> Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are subject, which consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.</p> <p><b>Response (in relation to a system of quality management).</b> Policies or procedures designed and implemented by the firm to address one or more quality risks.</p> <ul style="list-style-type: none"><li>• Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.</li><li>• Procedures are actions to implement policies.</li></ul> <p><b>Staff.</b> Professionals, other than partners, including any specialist the firm employs.</p>		<p><i>Relevant ethical requirements. <b>Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are subject, which consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.</b></i></p> <p><i>Response (in relation to a system of quality management). <b>Policies or procedures designed and implemented by the firm to address one or more quality risks.</b></i></p> <ul style="list-style-type: none"><li>• <i><b>Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.</b></i></li><li>• <i><b>Procedures are actions to implement policies.</b></i></li></ul> <p><i>Staff. <b>Professionals, other than partners, including any specialist the firm employs.</b></i></p>		<p>Definitions of <i>response (in relation to quality management)</i> and <i>staff</i> added pursuant to ASB direction (January 2023).</p>

This document is an excerpt from the IAASB’s Conforming and Consequential Amendments to the IAASB’s Other Standards as a Result of the New and Revised Quality Management. It only includes the amendments to the requirement paragraphs in ISAE 3000 and excludes paragraphs that are amended for minor edits only (for example, to change “quality control” to “quality management.”

ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
ISAE 3000 (Revised), para. 12	<p><b>Definitions</b></p> <p>(e) Engagement partner—The partner or other <u>individual, appointed by person</u> in the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. “Engagement partner” should be read as referring to its public sector equivalents where relevant.</p> <p>...</p> <p>(h) Engagement team—All partners and staff performing the engagement, and any <u>other individuals engaged by the firm or a network firm</u> who perform procedures on the engagement. <del>This excludes excluding</del> a practitioner’s external expert <del>engaged by the firm or a network firm.</del></p>	<p>Substantially agrees with proposed revised definition in paragraph .12 of draft revisions to AT-C section 105, which reads as follows:</p> <p><b>Engagement partner.</b><sup>fn 6</sup> The partner or other <del>person in</del> <b>individual appointed by</b> the firm who is responsible for the attestation engagement and its performance and for the practitioner’s report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body. <del>Engagement partner, partner, and firm refer to their governmental equivalents when relevant. (Ref: par. .A17)</del></p> <p>Substantially consistent with proposed revised definition in paragraph .12 of draft revisions to AT-C section 105, which reads as follows (Task Force determined to include the first set of highlighted words to provide clarity to practitioners who perform attestation engagements. The last set is consistent with wording included in the corresponding definition in SAS No. 146.):</p> <p><b>Engagement team.</b> All partners and staff performing the engagement and any <del>other individuals engaged by the firm or a network firm</del> who perform attestation procedures on the engagement <b>including an other practitioner but</b> <del>. This excludes excluding</del> a practitioner’s external specialist and engagement quality control reviewer <del>engaged by the firm or a network firm.</del> The term <b>engagement team</b> also excludes individuals within the client’s internal audit function <b>internal auditors who provide direct assistance on an engagement.</b><sup>fn 7</sup> (Ref: par. A18)</p> <p><sup>fn 7</sup> Paragraphs .40-.45 of section 205 establish limits on the use of direct assistance in an examination engagement.</p>

ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
ISAE 3000 (Revised), para. 21	The engagement partner shall be satisfied that <del>the firm's policies or appropriate</del> procedures <del>for regarding</del> the acceptance and continuance of client relationships and assurance engagements have been followed by the firm, and shall determine that conclusions reached in this regard are appropriate.	Consistent with paragraph .25 of draft revisions to AT-C section 105. “shall be satisfied that” is “should determine that”
ISAE 3000 (Revised), para. 22 (b)	<ul style="list-style-type: none"> <li>• <b>Acceptance and Continuance</b></li> <li>• ...</li> <li>• The practitioner shall accept or continue an assurance engagement only when:</li> <li>• ...</li> </ul> <p>(b) The practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, <u>including having been given sufficient time to perform the engagement</u> (see also paragraph 32); and ...</p>	<p>Requirement is adequately covered in paragraph .36<i>b</i> of the proposed revisions to AT-C section 105, which reads as follows:</p> <p><b>.36</b> The engagement partner should <del>be satisfied</del> <b>determine</b> that</p> <p>...</p> <p><b>ab. members of</b> the engagement team, and any practitioner's external specialists <b>and internal auditors who provide direct assistance who are not part of the engagement team</b>, collectively, have the appropriate competence, including knowledge of the underlying subject matter and criteria, and capabilities, <b>including sufficient time to perform the engagement</b>. (Ref: par. <del>A61–A62</del>.<b>A71–.A73</b>)</p>
ISAE 3000 (Revised), para. 23	<ul style="list-style-type: none"> <li>• If the engagement partner obtains information that <del>may would</del> have caused the firm to decline the engagement had that information been <u>known by the firm prior to accepting or continuing the client relationship or specific engagement</u> <del>available earlier</del>, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.</li> </ul>	<p>Requirement is adequately covered in paragraph .27 of the proposed revisions to AT-C section 105, which reads as follows:</p> <p><b>.27 If the engagement team becomes aware of information that may have caused the firm to decline the attestation engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action.</b></p>

ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
ISAE 3000 (Revised), para. 31(a)	<b>Quality Control<del>Management</del></b> <i>Characteristics of the Engagement Partner</i> The engagement partner shall:  (a) Be a member of a firm that applies ISQCM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQCM 1;	Corresponding requirement not in extant AT-C section 105. The requirement is included in ISA 220 (Revised) as follows:  3. This ISA is premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding. (Ref: Para. A2–A3) The ISA 220 (Revised) requirement is not included in SAS No. 146.
	<b><u>Engagement Resources</u></b>  (aa) <u>Determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement.</u>	Consistent with proposed paragraph .36a in draft revisions to AT-C section 105.
ISAE 3000 (Revised), para. 32(a)	<b><del>Assignment of the Team</del></b> The engagement partner shall:  (a) Be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, <del>including having been given sufficient time to: ...</del>	Incorporated in proposed paragraph .36b of proposed revisions to AT-C section 105 (see preceding reference to paragraph .36b).
ISAE 3000 (Revised), para. 33	<b><i>Responsibilities of the Engagement Partner</i></b> The engagement partner shall take <del>overall</del> responsibility for <del>the overall managing and achieving</del> quality on the engagement <del>and being sufficiently and appropriately involved throughout the engagement</del> . This includes responsibility for:	Consistent with paragraph .40a of draft revisions to AT-C section 105 which reads:  <b>.40</b> The engagement partner should take responsibility for <del>the overall quality on each attestation engagement</del> . This includes responsibility for the following: <b>(Ref: par. A80)</b>  <b>a.</b> <del>Appropriate procedures being performed regarding the acceptance and continuance of client relationships and engagements</del> <b>The overall managing and achieving quality on the engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining</b>

ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
	<p>(a) <u>Being satisfied that the firm’s policies or procedures for <del>Appropriate procedures being performed regarding</del> the acceptance and continuance of client relationships and assurance engagements have been followed;</u></p> <p>(b) The engagement being planned and performed (including appropriate direction and supervision <u>of engagement team members</u>) <del>to comply in accordance</del> with professional standards and applicable legal and regulatory requirements;</p> <p>Reviews being performed in accordance with the firm’s <del>review</del> policies <del>and/or</del> procedures and reviewing the engagement documentation on or before the date of the assurance report; ...</p>	<p><i>whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this section to other members of the engagement team to assist the engagement partner in complying with the requirements of this section, the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team and review of their work.</i></p> <p>The Task Force moved the “overall” wording to the subparagraph given the nature of the other subparagraphs.</p> <p>Included in proposed paragraph .25 of draft revisions to AT-C section 105.</p> <p>Included in paragraph .40b of draft revisions to AT-C section 105, which reads:</p> <p><i>be. The direction and supervision of the members of the engagement team and the review of their work</i></p>

ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
ISAE 3000 (Revised), para. 35	The engagement partner shall consider the <del>information from results of the firm’s monitoring and remediation process, as communicated evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that</del> <u>information</u> may affect the assurance engagement.	Included in proposed paragraph .51 of draft revisions to AT-C section 105, which reads:  <b>.51 The engagement partner should take responsibility for the following: (Ref: par. A87)</b>  <b>a. Obtaining an understanding of the information from the firm’s monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms</b>  <b>b. Determining the relevance and effect on the engagement of the information referred to in subparagraph a and taking appropriate action</b>  <b>c. Remaining alert throughout the engagement for information that may be relevant to the firm’s monitoring and remediation process and communicating such information to those responsible for the process</b>
ISAE 3000 (Revised), para. 36	<del>Engagement Quality Control Review</del>  For those engagements, <del>if any,</del> for which <del>an engagement quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required</del> <u>in accordance with ISQM 1 or the firm’s policies or procedures</u> :  (a) <del>The engagement partner shall take responsibility for discussing significant matters and significant judgments arising during the engagement with the engagement quality control reviewer, and not date the assurance report until completion of that review.<sup>2A</sup>; and</del>	Included in proposed paragraph .60c of draft revisions to AT-C section 105, which reads:  <b>.4560</b> For those engagements, <del>if any,</del> for which <del>the firm has determined that an engagement quality control review is required,</del> <b>the engagement partner should</b> (Ref: par. <del>A67</del> <b>A90</b> )  <b>c. the engagement partner should take responsibility for discussing with the engagement quality control reviewer significant matters and significant judgments findings or issues arising during the engagement, including those identified during the engagement quality control review, with the engagement quality reviewer.</b>  <b>d. and should not release the practitioner’s report until completion of the engagement quality control review and</b>  The proposed revision to AT-C section 105 runs to the “release of the report” instead of

ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
	<p><del>(c) The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve: (Ref: Para. A75)</del></p> <p><del>(i) — Discussion of significant matters with the engagement partner;</del></p> <p><del>(ii) — Review of the subject matter information and the proposed assurance report;</del></p> <p><del>(iii) — Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached; and</del></p> <p><del>(v) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.</del></p>	<p>“dating the report” for consistency with SAS No. 146 and SSARS No. 26.</p> <p>Proposed corresponding deletion from proposed paragraph .60 of draft revisions to AT-C section 105.</p>
ISAE 3000 (Revised), paragraph 69	<p><b>Preparing the Assurance Report</b></p> <p><i>Assurance Report Content</i></p> <ul style="list-style-type: none"><li>• The assurance report shall include, at a minimum, the following basic elements:</li><li>• ...</li><li>(i) A statement that the firm of which the practitioner is a member applies ISQGM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQGM 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQGM 1. (Ref: Para. A172)</li><li>...</li><li>(n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which:<ul style="list-style-type: none"><li>(i) <del>T</del>he practitioner has obtained the evidence on which the practitioner’s conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information; <u>and</u>.</li></ul></li></ul>	<p>Corresponding requirement not included in the attestation standards.</p>



ISAE 3000 (Revised)	Final Changes to ISAE 3000 – Approved by the IAASB in October 2021	How Addressed in Proposed Changes to Attestation Standards
	<u>(ii) When an engagement quality review is required in accordance with ISQM 14 or the firm's policies or procedures, the engagement quality review is complete.</u> (Ref: Para. A184A–A185A)	

With respect to those proposed changes to AT-C section 105 (related to quality management) included in Agenda item 2A that are more robust than the conforming amendments to ISAE 3000 (Revised):

Proposed Revisions to AT-C section 105	Amendments to ISAE 3000 (Revised)	Notes
<b>.26 The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the attestation engagement in accordance with the attestation standards and complying with the requirements of this section.</b>	Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 5, paragraph 3.	The proposed revision to AT-C section 105 is consistent with paragraph .23 of SAS No. 146.
<b>.27 If the engagement team becomes aware of information that may have caused the firm to decline the attestation engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action.</b>	Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 12.	The proposed revision to AT-C section 105 is consistent with paragraph .24 of SAS No. 146.
<b>.36 The engagement partner should be satisfied <del>determine</del> that</b>  <b>c. the nature, timing, and extent of direction, supervision, and review are</b>  <b>i. planned and performed in accordance with the firm's policies or procedures, professional</b>	Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 22.	The proposed revision to AT-C section 105 is consistent with paragraph .30 of SAS No. 146.

<p><i>standards, and applicable legal and regulatory requirements, and</i></p> <p><i>ii. responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm</i></p>		
<p><b>.36</b> The engagement partner should <del>be satisfied</del> <b>determine</b> that</p> <p><b>d. With respect to consultation:</b></p> <p><b>i. members of the engagement team have undertaken appropriate consultation during the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.</b></p> <p><b>ii. the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.</b></p> <p><b>iii. conclusions agreed have been implemented.</b></p> <p><b>.37 If, as a result of complying with the requirements in subparagraphs .36a and .36b, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the attestation engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement.</b></p>	<p><i>Engagement Quality Control Review</i> (Ref:Para. 36(b))</p> <p>A75. Other matters that may be considered in an engagement quality control review include:</p> <p>(a) The engagement team’s evaluation of the firm’s independence in relation to the engagement;</p> <p>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</p> <p>(c) Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.</p> <p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 19.</p>	<p>The “requirement” regarding consultation in ISAE 3000 (Revised) is subsumed as an “other matter.”</p> <p>Paragraphs .37-.38 of proposed revisions to AT-C section 105 are consistent with paragraphs .27-.28 of SAS No. 146.</p>

<p><b>.38 The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the attestation engagement.</b></p> <p><b>.40</b> The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following:</p> <p>...</p> <p><b>ec.</b> <del>Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.</del> <b>The engagement team undertaking consultation on</b></p> <p style="padding-left: 40px;"><b>(i) difficult or contentious matters and matters on which the firm’s policies or procedures require consultation and</b></p> <p style="padding-left: 40px;"><b>(ii) other matters that, in the engagement partner’s professional judgment, require consultation.</b></p>	<p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 20.</p>	<p>ISSA 5000 seems to only discuss consultations in the context of documentation, not partner responsibility.</p>
<p><b>.42 In an examination or review engagement, on or before the date of the practitioner’s report, the engagement partner should determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the practitioner’s report to be issued.</b></p>	<p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 8, paragraph 29(b).</p>	<p>The proposed revisions to AT-C section 105 are for consistency with paragraph .32 of SAS No. 146.</p>
<p><b>.43 Prior to dating the practitioner’s report, the engagement partner should review practitioner’s report and related engagement documentation, to determine that the report to be issued will be appropriate in the circumstances.</b></p> <p><b>.44 The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. .A81)</b></p>	<p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 8, paragraph 29(a).</p> <p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 24.</p>	<p>The proposed revisions to AT-C section 105 are for consistency with paragraphs .33-.34 of SAS No. 146.</p>

<p><del>.36</del><b>45</b> Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action. <b><i>The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the engagement.</i></b> (Ref: par. .A82 and .A86)</p> <p><b><i>.46 The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. .A83-.A84)</i></b></p> <p class="list-item-l1"><b><i>a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence</i></b></p> <p class="list-item-l1"><b><i>b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence and the responsibilities of members of the engagement team when they become aware of breaches</i></b></p> <p class="list-item-l1"><b><i>c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity</i></b></p> <p><b><i>.47 If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should</i></b></p>	<p>Not included.</p> <p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 13.</p> <p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 14.</p>	<p>The proposed revisions to AT-C section 105 include requirements for consistency with SAS No. 146 and SSARS No. 26.</p>
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<p><b><i>evaluate the threats by complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources; and take appropriate action.</i></b></p> <p><b><i>.48 The engagement partner should remain alert throughout the engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team</i></b></p> <p><b><i>.49 If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. .A85)</i></b></p> <p><b><i>.50 Prior to dating the practitioner’s report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.</i></b></p>	<p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 15.</p> <p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 2, paragraph 15.</p> <p>Not included. However, the March 2023 draft of proposed ISSA 5000 includes this in Part 8, paragraph 29(a).</p>	
<p><b><i>.51 The engagement partner should take responsibility for the following: (Ref: par. .A87)</i></b></p> <p><b><i>a. Obtaining an understanding of the information from the firm’s monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms</i></b></p> <p><b><i>b. Determining the relevance and effect on the engagement of the information referred to in subparagraph a and taking appropriate action</i></b></p> <p><b><i>c. Remaining alert throughout the engagement for information that may be relevant to the firm’s</i></b></p>	<p>Not included. However, the March 2023 draft of proposed ISSA 5000 partially includes this in Part 2, paragraph 25.</p>	<p>The proposed revisions to AT-C section 105 include requirements for consistency with SAS No. 146 and SSARS No. 26.</p>

<i>monitoring and remediation process and communicating such information to those responsible for the process</i>		
<p><del>.4560</del> For those engagements, <del>if any,</del> for which <del>the firm has determined that an engagement quality control review is required,</del> <b>the engagement partner should</b> (Ref: par. <del>.A67A90</del>)</p> <p>a. <b>determine that an engagement quality reviewer has been appointed.</b></p> <p>b. <b>cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.</b></p> <p>c. <del>the engagement partner should take responsibility for discussing with the engagement quality control reviewer significant</del> <b>matters and significant judgements</b> <del>findings or issues arising during the engagement, including those identified during the engagement quality control review, with the engagement quality reviewer.</del></p> <p>d. <del>and should not release the practitioner's report until completion of the engagement quality control review</del></p>	<p>36. For those engagements, <del>if any,</del> for which <u>an engagement quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required in accordance with ISQM 1 or the firm's policies or procedures:</u></p> <p><del>¶</del>the engagement partner shall <del>take responsibility for</del> discussing significant matters <u>and significant judgments</u> arising during the engagement with the engagement quality <del>control</del> reviewer, and not date the assurance report until completion of that review</p>	<p>ISAE 3000 (Revised) does not include subparagraphs (a) and (b) from the proposed revisions to AT-C section 105. Such revisions are for consistency with SAS No. 146 and SSARS 26.</p>

## ESG/Sustainability Cover Letter

### I. Objective of Agenda Item

To provide the ASB with an update about the Reporting on Sustainability Information project and obtain input from the ASB about the key issues related to ISSA 5000 that have been identified by the ASB ESG Task Force to date.

### II. Members of ASB ESG Task Force

The ASB ESG Task Force members include:

- Diane L. Hardesty, Co-Chair, Ernst & Young LLP, assisted by Kristen Quattlebaum
- Catherine Ide, Co-Chair, PwC LLP, assisted by Kara Barnard
- Antonia Chong, Deloitte, assisted by Christina Baker
- Richard A. Davisson, RSM US LLP, assisted by Lauren Horneff
- Renee Rampulla, Rampulla Advisory Services LLC
- Dyan K. Rohol, KPMG LLP, assisted by Susan Jones
- Soma Sinha, Mazars LLP
- Staffed by Judith Sherinsky and Ahava Goldman

### III. Agenda Items Presented

- Item 3 — ESG/Sustainability Cover Letter (*Required advanced reading*)
- Item 3A — Sustainability Assurance: Summary of project and key issues (Power Point slides) (*Required advance reading*)
- Item 3B — Final Project Plan

Ms. Hardesty and Ms. Ide will use the Power Point slides in Agenda Item 3A for their presentation.

The objectives of the discussion are to:

- Summarize the approved Project Plan for the ASB and address any questions or concerns. The ASB is welcome to read the Final Project Plan in its entirety (refer to Agenda Item 3B).
- Discuss a high-level summary of the ASB ESG Task Force milestones to inform the ASB about upcoming meetings and review responsibilities (refer to slide 4 of Agenda Item 3A).
- Walk through the top issues related to ISSA 5000 identified to date by the ASB ESG Task Force (slides 6-12 of Agenda Item 3A).
- Obtain feedback from the ASB regarding their views about the key issues related to ISSA 5000 identified to date by the ASB ESG Task Forces (slides 6-21 of Agenda Item 3A), including whether there are significant issues missing.

### IV. Action Requested of the ASB

The ASB is asked for their thoughts about the top issues identified in 3A and plans for convergence.



# Sustainability Assurance

Diane Hardesty, Task Force Co-Chair  
Catherine Ide, Task Force Co-Chair

*Presentation at the May 2023 ASB Meeting*



## Project Plan – Reporting on Sustainability Assurance (Refer to Agenda Item 3B)

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- The objective of this project is to consider the IAASB's proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*, and determine whether, and if so how, to revise the Statements on Standards for Attestation Engagements (SSAEs, or attestation standards) to provide requirements and guidance for practitioners reporting on sustainability information under the attestation standards
- The following AT-C sections would be impacted:
  - AT-C 105, *Concepts Common to All Engagements*
  - AT-C 205, *Assertion-Based Examination Engagements*
  - AT-C 210, *Review Engagements*
  - In addition, a new AT-C subject matter section will be developed; name and number to be determined

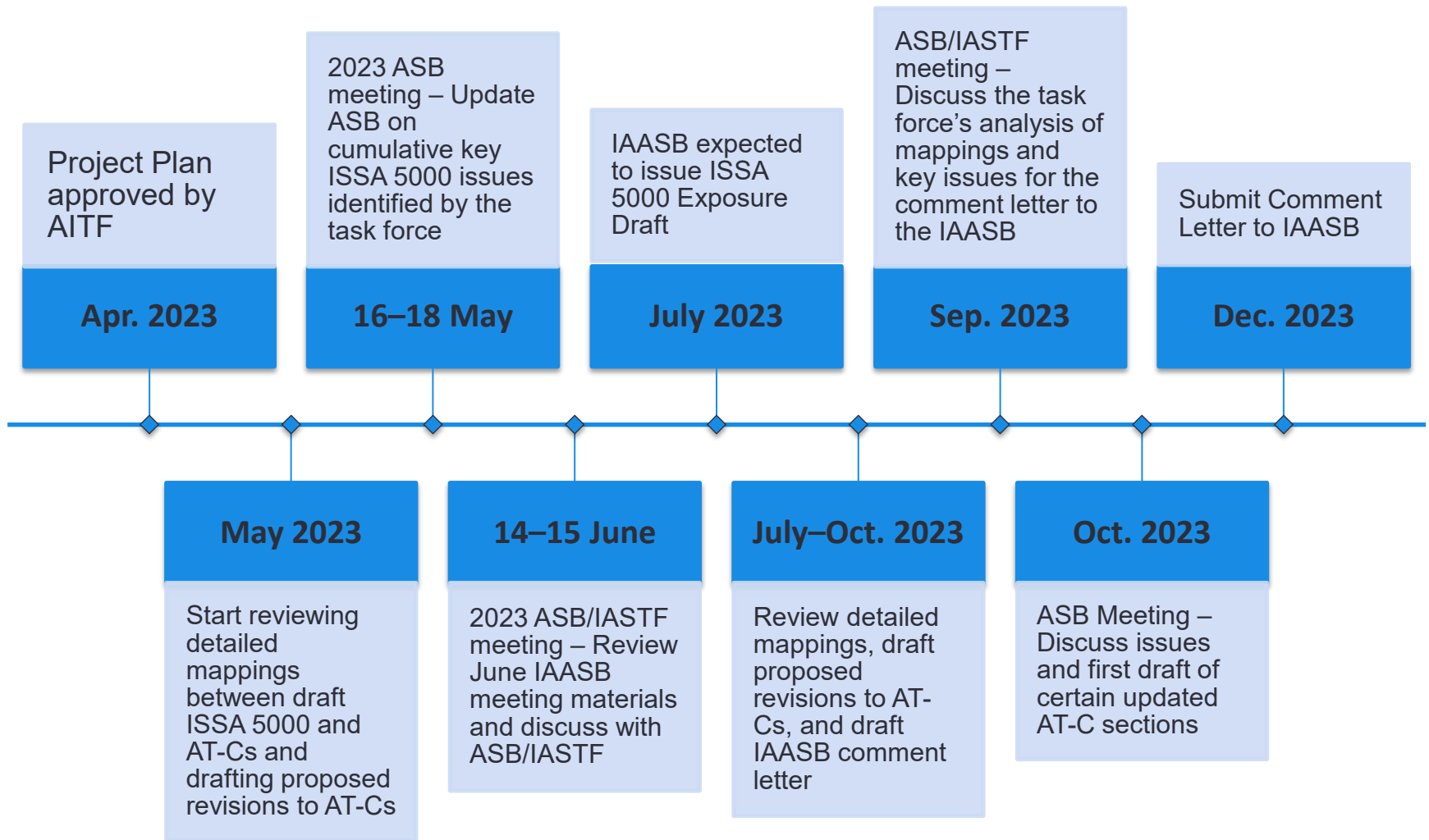
# Project Plan – Reporting on Sustainability Information (Refer to Agenda Item 3B)

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This standards-setting project includes:

- Considering potential changes needed to the attestation standards for the purpose of providing clear requirements and application material for practitioners performing sustainability attestation engagements
- Considering the IAASB's proposed ISSA 5000, including conforming amendments
- Mapping/comparing and related analysis
  - Mapping the requirements and application material in proposed ISSA 5000 to those included in AT-C sections 105, 205 and 210
  - Determining if there are requirements and application material in proposed ISSA 5000 that should be added to AT-C sections 105, 205 and 210, which might expand requirements for all attestation engagements, including those on sustainability information
  - Determining if there are sustainability-specific requirements and application material in proposed ISSA 5000 that should be added to a new subject-matter AT-C section
  - Determining if there is sustainability-specific guidance in the AICPA Sustainability Guide that should be elevated to an AT-C section or if material from proposed ISSA 5000 should be added to the Guide
- Preparing a draft standard for exposure that includes an appendix summarizing the differences between ISSA 5000 and the SSAEs
- Collaborating with other AICPA task forces

# High-level summary of ASB ESG Task Force Milestones



# ISSA 5000 – Table of Contents (for reference only)

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- Introduction, Scope and Objectives
- Definitions
- Part 1: Conduct of an Assurance Engagement in Accordance with SSAEs
- Part 2: Fundamental Concepts, General Principles and Overarching Requirements
- Part 3: Acceptance and Continuance of the Assurance Engagement
- Part 4: Evidence and Documentation
- Part 5: Planning
- Part 6: Risk Identification and Assessment
- Part 7: Responding to Assessed Risks of Material Misstatement
- Part 8: Concluding
- Part 9: Forming a Conclusion and Reporting
- Illustrative reports

# Top issues identified by the ASB ESG Task Force

## *Matters related to use by non-practitioners*

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Part	Issue	Description
2	Relevant ethical requirements *	If no other professional requirements or requirements in law or regulation exist, the non-CPA practitioner should be required to follow IESBA.
2	"At least as demanding" * (Relevant ethical requirements and ISQM)	Additional requirements and guidance are needed related to how non-CPA practitioners could assess whether what they follow is "at least as demanding" as the IESBA Code and ISQM. IAASB should talk with EU Commission, SEC and others about equivalents (ISO?) and oversight.
Various	Additional application guidance needed for non-practitioners *	Foundational level of knowledge of assurance engagements assumed; additional AM in some areas (e.g., materiality, estimates and forward-looking information, reasonable vs. limited assurance, risk identification and assessment) targeted at non-CPA practitioners could help ensure consistent application and execution.
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.		

# Top issues identified by the ASB ESG Task Force

## *Relationship with other standards and EER guidance*

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Part	Issue	Description
Intro	Inconsistency of ISAE 3410 with ISSA 5000	We suggest withdrawing 3410, revising it and reissuing as a subject-specific standard under the ISSA 5000 umbrella.
Intro	Clarity when providing assurance on GHG *	It needs to be more clearly spelled out when both ISAE 3410 and ISAE 3000 continue to apply instead of ISSA 5000.
Intro	Applicability of EER Guidance	It is unclear how the EER guidance is going to be positioned once ISSA 5000 is effective. The applicability of the EER guidance should be addressed in the Introduction.
	* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

# Top issues identified by the ASB ESG Task Force

## *Definitions related to sustainability information*

Part	Issue	Description
1	Topics, Aspects of Topics and Another Practitioner	Suggest adding formal definitions for Topics, Aspects of Topics and Another Practitioner
1	Definition of sustainability information *	<p>The interplay among “disclosures,” “sustainability information,” and “underlying subject matter” is still confusing and the use of the terms as currently defined is not consistent throughout the requirements and application material.</p> <ul style="list-style-type: none"> <li>One suggestion would be to clearly identify information that is “subject to assurance” with that phrase to help ensure common understanding about to which information the requirements and application guidance apply.</li> </ul>
Various	Description of Sustainability Information *	Continued concern that they need to use separate terms for “sustainability information in its entirety” and “sustainability information subject to assurance” to explicitly clarify the meaning of the term throughout the standard.
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.		

# Top issues identified by the ASB ESG Task Force

## *Definitions related to sustainability information (Cont'd)*

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Part	Issue	Description
3	Requirements related to “sustainability information expected to be reported” are too broad *	<p>The practitioner is required to obtain an understanding of the “sustainability information expected to be reported” (Part 3, paragraphs 1, 2c, 7A and 7B).</p> <ul style="list-style-type: none"> <li>• The intent of the requirements is to provide a basis for determining whether the scope of the engagement is appropriate. However, we think the practitioner should only be required to determine that the scope of the engagement is not misleading.</li> <li>• We believe this can be done without requiring the practitioner to understand or evaluate what could be an extremely large population of sustainability information expected to be reported, including determining that the subject matter outside the scope of an assurance engagement is ‘appropriate’.</li> </ul>
	* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	



# Top issues identified by the ASB ESG Task Force

## *Limited Assurance*

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Part	Issue	Description
6 & 7	Requirements for limited assurance engagements *	<p>ISSA 5000 requirements for performing limited assurance engagements are more extensive than what is currently required for obtaining limited assurance (e.g., evaluating the design and implementation of controls, testing controls, sampling, performing procedures between an interim date and period end). We believe these go beyond what is needed to obtain limited assurance and border on obtaining reasonable assurance.</p> <ul style="list-style-type: none"><li>• We suggest considering some of the guidance in Appendix 3, “Limited and Reasonable Assurance” of the EER guidance which provides examples of the ways in which procedures performed to obtain reasonable and limited assurance may differ.</li></ul>
	* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

# Top issues identified by the ASB ESG Task Force

## *Other Information and Reporting*

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Part	Issue	Description
3 & 8	Other Information	The requirements and application guidance are taken from ISA 720; where clear understanding exists about annual reports and financial statements. The requirements and application guidance in ISAE 3000 should be used as an initial baseline instead, with relevant guidance issued as the reporting environment matures. We believe there could be inconsistency in practice between CPA and Non-CPA practitioners.
8	Fair presentation	New requirement to conclude on “fair presentation” seems unnecessary and could be confusing – the concept of fair presentation is only briefly mentioned in ISAE 3000. It may be premature to consider any sustainability framework a fair presentation framework (e.g., we understand CSRD to be explained as a compliance framework).
9	Report requirements too prescriptive	<p>The reporting requirements and application material related to the criteria and other reporting elements are too specific and prescriptive given the evolving nature of both the subject matter and the reporting environment.</p> <ul style="list-style-type: none"> <li>• A more principles-based approach to the required elements of the report would allow the report to be tailored to the subject matter; use illustrative reports to help communicate the reporting objectives.</li> </ul>

# Top issues identified by the ASB ESG Task Force

## *Another Practitioner and Practitioner's Expert*

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Part	Issue	Description
2	Work Already Performed by a Another Practitioner and Work to Be Performed by a Practitioner's Expert *	In these areas, the requirements and application material seem to be framed differently than in ISAE 3000 and ISA 600 and at a higher level than ISA 620. Additional explanation of differences is needed to avoid confusion and variation in practice.
	* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

## APPENDIX: Additional matters for IAASB consideration

Place subhead below main headline.

# Additional Matters for *IAASB Consideration*

## *Thematic Observations*

Issue	Description
Inconsistent consideration of the scope of an engagement between requirements and illustrative reports	Requirements and guidance are written for situations where the sustainability information subject to assurance is (only) selected items of sustainability information expected to be reported (which will not be the case under CSRD and ISSB), but the illustrative reports are based on providing assurance on all sustainability information reported.
Additional guidance for estimates *	Sustainability information contains many estimates; therefore, we suggest including additional guidance consistent with ISA 540.
Additional guidance for forward-looking information and other non-qualitative information	<p>The current requirements and application guidance around forward-looking information and other non-quantitative information, which are part of the reporting requirements of CSRD/ISSB, are vague and high-level.</p> <ul style="list-style-type: none"><li>• We believe additional guidance related to forward looking information, narrative and qualitative information is necessary to help ensure consistent application. This could be done “outside” of ISSA 5000.</li></ul>

\* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.

# Additional Matters for *IAASB Consideration*

## *Thematic Observations*

Issue	Description
Portion of sustainability information presented subject to assurance vs. all sustainability information presented	Focus is currently on requirements and guidance for situations where the sustainability information subject to assurance is a portion of sustainability information expected to be reported (which will not be the case under CSRD and ISSB), but the illustrative reports are based on providing assurance on all sustainability information.
Additional guidance for estimates *	Sustainability information contains many estimates; therefore, we suggest including additional guidance consistent with ISA 540.
Additional guidance for forward-looking information and other non-qualitative information	<p>The current requirements and application guidance around forward-looking information and other non-quantitative information, which are part of the reporting requirements of CSRD/ISSB, are vague and high-level.</p> <ul style="list-style-type: none"> <li>• We believe additional guidance related to forward looking information, narrative and qualitative information is necessary to help ensure consistent application. This could be done “outside” of ISSA 5000.</li> </ul>
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

# Additional Matters for IAASB Consideration

## *Definitions*

Issue	Description
Definition of materiality *	To help with consistent application, define materiality with additional guidance on how it could be set/used by the practitioner in the context of qualitative, quantitative, or other disclosures subject to assurance.
Relationship between Appropriate Parties and Responsible Parties	The relationship between “appropriate party(ies)” and “responsible party(ies)” is unclear. The term “responsible party(ies)” is used in ISSA 3000 but not used in ISSA 5000; “management” is used instead.
Engagement Team	Suggest that the definition of “engagement team” address network firms
Risk assessment terms	Consider either defining or further explaining many of the terms used in Parts 6 and 7 that may not be easily understood by non-practitioners (e.g., significant deficiency, deficiency in internal control, general IT controls, risks arising from the use of IT, indirect controls)
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

# Additional Matters for IAASB Consideration

## *Introduction*

Issue	Description
Future state of overall standards framework	The future state of the overall framework of the standards and how the ISSA (and future topics or subtopics) fits into that framework should be addressed.
Restricted distribution versus restricted use reports	ISAE 3000 does not currently have the concept of restricted use reports, therefore ISSA 5000 only refers to restricted distribution. We believe the ISSA should be expanded to include requirements regarding restricting the use of the reports – consistent with AICPA standards.



# Additional Matters for IAASB Consideration

## *Part 2: Fundamental Concepts*

Issue	Description
Description of Management's Expert	<p>The definition and application material need to better explain the skills management's experts do have (e.g., scenario analysis, engineering), rather than the skills they do not have.</p> <p>Clarify that a management's expert doesn't include "outsourced internal preparers" that management has hired only to prepare sustainability information</p>
Need to include practitioner's internal expert and internal audit used for direct assistance	<p>Suggest to include requirements for work of practitioner's internal expert and internal audit used for direct assistance and consider these resources in the explanation of engagement team (and related requirements, e.g., paragraph 17)</p>

# Additional Matters for IAASB Consideration

## *Part 4: Evidence and Documentation*

Issue	Description
Alignment with ISA 500 updates	Because the references are to the Evidence Exposure Draft, it is unclear how the alignment process will occur given the timing of ISSA 5000.

# Additional Matters for IAASB Consideration

## *Parts 6: ROMM and 7: Responding to ROMM*

Issue	Description
Risk assessment requirements and guidance needed *	<p>More explicit requirements or application material in Part 6 on how to assess risks (for reasonable assurance engagements) could assist in consistent application and execution.</p> <ul style="list-style-type: none"><li>• Part 6 focuses on identifying risks but is very light on the requirement to assess the risks (concepts of likelihood and intention to test controls, and the concept of risk close to the upper end of the spectrum are used in Part 7, but not addressed in Part 6).</li></ul>
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

# Additional Matters for IAASB Consideration

## *Part 9: Reporting*

Issue	Description
Additional wording to mitigate misunderstandings	When using a prescribed report, paragraph 10, Part 3, requires the practitioner to consider if additional wording would mitigate possible misunderstandings, but there is no requirement to include such additional explanation.
Recommendations or additional information	ISAE 3000 Para.68 allows that "recommendations or additional information" could be included in the assurance report. However, inclusion in ISSA 5000 can be misconstrued. Given the maturity of these entities/engagements, we support separate communication to management in the form of a letter to management or TCWG.

# Additional Matters for IAASB Consideration

## *Illustrative Reports*

Issue	Description
Need to see updates to both Part 9 and Illustrative Reports	Hard to comment on one without the other <ul style="list-style-type: none"><li>• Additional illustrations may be necessary (e.g., in relation to CSRD to ensure the conclusion is what regulators expect) - this could perhaps be issued as a practice aid with the final standard</li></ul>
Need a modified opinion example *	Perhaps a scope limitation as this may be the most common.
Reporting on a portion of the sustainability information *	Examples needs to illustrate common occurrence of when only a portion of the sustainability information is subject to assurance
More precise description of sustainability information *	The illustrative reports need to include a more specific description/indication of the sustainability information being reported on.
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

# Additional Matters for IAASB Consideration

## *Illustrative Reports*

Issue	Description
Remove summary of procedures for RA engagements	For reasonable assurance reports – do not require a summary of the nature and extent of procedures performed. Reasonable assurance is one bar – not a sliding scale like limited assurance.
Revise summary of procedures for LA engagement *	For limited assurance reports – the example of the nature and extent of procedures goes too far for a limited assurance engagements – goes beyond what we are doing today.
Remove description of “multidisciplinary team” *	Even though currently included in the EER example, we don’t think it’s necessary to require the language about a “multidisciplinary team” in all reports.
* Expected to be addressed, fully or partially, in the June 2023 IAASB meeting draft of ISSA 5000.	

## Project Plan – Reporting on Sustainability Information

IAASB related project		PCAOB related project	
Yes	No	Yes	No
✓			✓

### I. Subject

This project plan addresses attestation standards for practitioners reporting on sustainability information. The following AT-C sections would be impacted:

- AT-C 105, *Concepts Common to All Engagements*
- AT-C 205, *Assertion-Based Examination Engagements*
- AT-C 210, *Review Engagements*

In addition, a new AT-C subject matter section will be developed; name and number to be determined.

### II. Project Objective

The objective is to determine whether, and if so how, to revise the Statements on Standards for Attestation Engagements (SSAEs, or attestation standards) to provide requirements and guidance for practitioners reporting on sustainability information under the attestation standards.

As part of this project, the AICPA Auditing Standards Board (ASB) will consider convergence with the standard the International Auditing and Assurance Standards Board's (IAASB) expects to issue, which will be known as International Standard for Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* (proposed ISSA 5000), and whether it serves the public interest in the U.S.<sup>1</sup> The ASB will also consider the activities of others, such as the U.S. Public Company Accounting Oversight Board (PCAOB), and regulators whose requirements permit assurance under AICPA attestation standards.

In addition, the ASB will need to coordinate closely with the AICPA Professional Ethics Executive Committee (PEEC) to enable coordination between the two boards regarding sustainability assurance terminology and ethical requirements for both practitioners and nonpractitioners performing sustainability assurance engagements.

<sup>1</sup> As expressed in the ASB's [Operating Policies](#), the ASB has a strategic objective to converge its standards with those of the IAASB. The ASB also considers the standard-setting activities of others, such as the U.S. Public Company Accounting Oversight Board (PCAOB). Further, the ASB has established *Convergence Drafting Guidelines* (see appendix B in the ASB's Operating Policies) reflecting the ASB's commitment to be an "ISA Base" standard-setter.

### III. Outline of the Project

#### A. Project Scope

This standards-setting project includes:

- considering potential changes needed to the attestation standards for the purpose of providing clear requirements and application material for practitioners performing sustainability attestation engagements;
- considering the IAASB's proposed ISSA 5000, including conforming amendments;
- mapping the requirements and application material in proposed ISSA 5000 to those included in AT-C sections 105, 205 and 210;
- determining if there are requirements and application material in proposed ISSA 5000 that should be added to AT-C sections 105, 205 and 210, which might expand requirements for all attestation engagements, including those on sustainability information;
- determining if there are sustainability-specific requirements and application material in proposed ISSA 5000 that should be added to a new subject-matter AT-C section in the 300 series or in a new 400 "Sustainability" series section;
- determining if there is sustainability-specific guidance in the AICPA guide *Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information and Climate-Related Financial Disclosures)* (Sustainability Guide) that should be elevated to an AT-C section or if material from proposed ISSA 5000 should be added to the Guide; and
- preparing a draft standard for exposure that includes an appendix summarizing the differences between ISSA 5000 and the SSAEs.

#### B. Key Topics that Will be Addressed

In keeping with the IAASB project, the ASB's consideration of new standards will address the following topics with regard to attestation engagements on sustainability information:

Introduction, Scope, Objective

Definitions

Part 1: Conduct of an Assurance Engagement in Accordance with SSAEs

Part 2: Fundamental Concepts, General Principles and Overarching Requirements

Part 3: Acceptance and Continuance of an Assurance Engagement

Part 4: Evidence and Documentation

Part 5: Planning

Part 6: Risk Identification and Assessment

Part 7: Responding to Assessed Risks of Material Misstatement



Part 8: Concluding

Part 9: Forming a Conclusion and Reporting

Illustrative reports

## IV. ASB Task Force Composition and Actions, and Project Timetable

### A. ASB Task Force Composition and Actions

#### 1. ESG Task Force

The ASB ESG Task Force comprises:

Diane L. Hardesty, Co-Chair, Ernst & Young LLP, assisted by Kristen Quattlebaum

Catherine Ide, Co-Chair, PwC LLP, assisted by Kara Barnard

Antonia Chong, Deloitte, assisted by Christina Baker

Richard A. Davisson, RSM US LLP, assisted by Lauren Horneff

Renee Rampulla, Rampulla Advisory Services LLC  
Dyan K. Rohol, KPMG LLP, assisted by Susan Jones

Soma Sinha, Mazars LLP

Staffed by Judith Sherinsky and Ahava Goldman

#### 2. ASB ESG Task Force Activities

The ASB ESG Task Force was formed in early 2022 to monitor and provide input on the IAASB's Sustainability project through the AICPA's IAASB board member, Wendy Stevens (Mazars LLP) and to consider possible standard-setting options and other actions the ASB might take to address practitioner needs in the U.S. regarding practitioner attestation engagements on sustainability information.

### B. Project Timetable

The following table sets out the preliminary timetable, noting that specific project milestones and outputs may change as the project develops.

The ASB project is projected to run as close as possible to the IAASB project, so that the ASB exposure draft may be issued shortly after the IAASB exposure draft. Aligning the timing of these projects will enable the ASB to provide timely feedback to the IAASB as it is working through a final standard.

### Projected Timetable

Key: Info = Information gathering    CL = Comment letters    DD = Discussion draft    DI = Discuss issues  
ED = Exposure draft    Final = Final standard/guidance    TBD = To be determined

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2
ASB Expected Timing		Project plan / DI	DD	DD	DD/ED Vote (January 2024)	CL due (June 2024)	DI	CL	CL/DD	Final Vote (May 2025)
<i>IAASB Expected Timing</i>	DD	DD	ED <sup>2</sup>		Comment period ends		DD	Final		

## V. Resources Required

- ASB ESG task force - The Task Force includes an ASB member and practitioners with experience related to assurance engagements on sustainability information. Practitioners from the Big 4 firms are assisted by technical advisors. Diane Hardesty and Susan Jones are technical advisors to their respective IAASB members, and Susan Jones is a member of the IAASB ISSA 5000 drafting team.
- AICPA staff - Staffed by A&A team members Judith Sherinsky and Ahava Goldman.
- Other ASB task forces dealing with sustainability information and attestation standards - The Attestation Standards Task Force, chaired by Halie Creps, and the ASB Sustainability Guidance task force, chaired by Paul Penler, are working on related issues. These two ASB task forces will be used as subject matter experts as the ASB ESG task force begins the drafting of the AT-C sections.
- Other resources - Resources will be needed to help with outreach and understanding by potential users of the assurance reports on sustainability information, including explaining the need for the enhancements to standards. Resources also will be needed for post-implementation review.

## VI. Post-Implementation Review

Post-implementation activities, such as surveys, will be performed to determine whether and how the revised and new AT-C sections are being used.

<sup>2</sup> Note that the IAASB's planned timing for the ISSA ED may be accelerated with an ED voted out in June 2023 and issued in July 2023 (instead of the planned voted in September 2023 and issuance in October 2023). The ASB timeline may need to be challenged if the IAASB decides to accelerate the issuance of the ED.

## Appendix: AICPA Actions, Actions of Other Standard Setters, and Relevant Sources of Information that Address the Matter Being Proposed

### A. AICPA Actions

Companies, regulators, standard-setters, investors, and other stakeholders in the U.S. and the rest of the world continue to drive enhanced reporting, transparency, and assurance of sustainability information. As a result, the AICPA has taken several actions to understand and address the expanding need for practitioner requirements and guidance for reporting on sustainability information under the attestation standards.

The following are examples of such activities:

- The ASB's Attestation Task Force is considering issues that not only impact the assurance of sustainability information, but attestation engagements broadly.
- The AICPA partnered with the International Federation of Accountants (IFAC) and [Audit Analytics](#) to conduct a series of global benchmarking studies to better understand the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service. The most recent of which was released in February: [The State of Play in Sustainability Assurance | IFAC](#) (February 15, 2023).
- In January 2023, the AICPA published an update to its Sustainability Guide. Since the completion of this update, the AICPA has reconstituted its Sustainability Guidance Task Force to continue to consider sustainability-specific guidance that may be needed.
- In December 2022, the AICPA conducted a survey of its members to further understand the state of sustainability assurance practices in the U.S.
- In June 2022, the Sustainability Assurance and Advisory Task Force of the AICPA Assurance Services Executive Committee (ASEC) published a brochure entitled "[ESG Assurance](#)," which serves as a resource to educate clients about the value of sustainability assurance services.

The AICPA is also collaborating with the Center for Audit Quality (CAQ) and other larger firms on the development of a series of publications entitled "Why the CPA" aimed at informing different stakeholders about the value of engaging CPAs for attestation engagements over sustainability-related information. Each publication in the series will target a different stakeholder group, starting with companies, then investors, then auditors.

### B. Actions of Other Standard Setters

#### 1. IAASB project

At its September 2022 meeting, the IAASB approved a project proposal for the development of an assurance standard for practitioners reporting on sustainability information. The IAASB describes the standard as "overarching" or "stand alone" because it will be all inclusive for the purpose of reporting on sustainability information and will not require the practitioner to refer to any other assurance standards, such as ISAE 3000 (Revised), to perform the engagement. The proposed standard will be the first of a

new suite of sustainability assurance standards. The proposed standard is intended for use by professional accountants as well as assurance providers who are not also professional accountants.

The IAASB has indicated that its approach to developing proposed ISSA 5000 should be responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements and includes immediate focused standard-setting action; with deferral of further, more specific sustainability standard-setting activities to the future to respond to evolving priorities.

## **2. PCAOB project**

The PCAOB has a project to evaluate the interim attestation standards, as adopted upon the establishment of the PCAOB in April 2003, for the purpose of developing any potential recommendation to amend, consolidate or eliminate certain standards, as appropriate. On September 26, 2022, the staff issued [a request for information and public comment\(PDF\)](#) on the application and use of the Board's attestation standards. Comments were due October 26, 2022. PCAOB staff is currently evaluating the comments and the timing of further action, and what that action could be, is uncertain. The ASB is monitoring the activities of the PCAOB and will determine if the direction of the PCAOB has any effect on our project.

## **3. Actions of the SEC**

In March of 2022, the SEC proposed amendments to Regulations S-K and S-X for the enhancement and standardization of climate-related disclosures for investors. The proposed rule would require a domestic or foreign registrant to include certain climate-related information in its registration statements and periodic reporting, such as on Form 10-K, including:

- Climate-related risks and their actual or likely material impacts on the registrant's business, strategy, and outlook;
- The registrant's governance of climate-related risks and relevant risk management processes;
- The registrant's greenhouse gas emissions, which, for accelerated and large accelerated filers and with respect to certain emissions, would be subject to assurance;
- Certain climate-related financial statement metrics and related disclosures in a note to its audited financial statements; and
- Information about climate-related targets and goals, and transition plan, if any.

The SEC is expected to issue a final rule during 2023. For more information on the proposed rule, see the AICPA summary here: [AICPA Summary: SEC Proposed Rule on Climate-related Disclosures | Resources | AICPA \(aicpa-cima.com\)](#)

**C. Relevant Sources of Information that Address the Matter Being Proposed**

- IAASB relevant project materials. Note, sustainability project materials from the IAASB's March, June and September 2023 meetings. The IAASB plans on approving the proposed standard for exposure either in September 2023 or June 2023.
  - SEC proposed rule

Discussed with AITF	<a href="#">April 3, 2023</a>
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# Task Force Updates

*Presentation at the May 2023 ASB Meeting*



# Sustainability Guidance

Paul Penler, Task Force Chair

Mike Glynn, Staff Liaison

# Sustainability Guidance Task Force

## Objectives

- Address guidance needed in relation to SEC final rule
- Coordinate with ASB Attestation Task Force and ASB ESG Task Force
- Coordinate with CAQ via joint CAQ and AICPA Steering Committee

## Key Actions in 2023

- Discuss “parking lot” issues that arose during the last update to the guide

## Timing Challenge

- Unknown as to timing of the issuance and effective date of the SEC climate rule

*Current focus on potential changes to the AICPA Sustainability Guide; direction dependent upon details of SEC final rule.*





# Going Concern

Clay Huffman and Laura Schuetze,  
ASB Task Force Chairs  
Brian Wilson, Staff Liaison

# Update

## Recent Activities & IAASB Update

- The Task Force was primarily focused in Q1 2023 on reacting to the final working version of the proposed ISA 570 Revised Exposure Draft
- The IAASB released that ED on April 26, 2023. Comments are due August 24, 2023
- The TF also monitored the PCAOB's SEIAG discussion on March 31 on the topic of Going Concern

## Upcoming ASB Task Force Activities

- ASB GC TF meetings planned for 2023:
  - June to August: Discuss the ED and prepare/submit comment letter response. Note: several ASB TF members are also represented on the CAQ's GC TF responding to the IAASB's GC ED
  - Monitor PCAOB developments and respond during any potential future open exposure period
  - Monitor other standard-setters (e.g., GASB's project on Going Concern Uncertainties and Severe Financial Stress)
  - Update the ASB

## What to Expect in 2023 and Beyond

- ASB comment letter response to the IAASB and any potential PCAOB GC exposure
- Information exchanges with the GASB about outreach performed by each respective board



# Audit Evidence

Kathy Healy, ASB Task Force Chair

Ahava Goldman, Staff Liaison

# Audit Evidence

- Comment letter submitted to the IAASB April 24<sup>th</sup>
- IAASB will discuss comment letters at the December 2023 IAASB meeting
- Task force going on hiatus until materials for December 2023 IAASB meeting are available (expected in November 2023)
- Current perspective:
  - Would like to avoid changes to AU-C 500.
  - Based on final standard, Task Force to develop recommendation on whether it believes AU-C 500 achieve the same outcome/is substantially converged (and therefore no changes are needed).

**Public Interest Entity: Cover Letter and Discussion Memorandum****I. Discussion Objectives**

To provide the ASB with an update about the development of public interest entity (PIE) projects at the International Auditing and Assurance Standards Board (IAASB) and the AICPA Professional Ethics Executive Committee (PEEC).

To obtain the ASB's assessment as to what, if any, standard setting actions of the ASB are needed.

**II. Members of ASB PIE Task Force**

The ASB Fraud Task Force members include:

- Andrew Prather, *Chair* Clark Nuber P.S.
- Jennifer Clayton, AICPA Professional Ethics Division
- Heather Funsch, Rehmann and AICPA Technical Issues Committee
- Renee Rampulla, Rampulla Advisory Services LLC
- Tania Sergott, Deloitte & Touche LLP

Brian Wilson serves as the Audit and Attest staff lead.

**III. Agenda Items Presented**

- Item 6 —ASB Cover Letter and Discussion Memorandum (**Required** advanced reading)
- Item 6A — PEEC Issues Paper (Recommended advance reading)
- Item 6B — Proposed PEEC PIE Exposure Draft (Recommended advance reading)

Mr. Prather will lead the overall discussion; however, Ms. Clayton will provide a relevant update on matters concerning the status and next steps of the PEEC PIE project.

Mr. Prather will primarily use Agenda Item 6 to facilitate the ASB's discussion and to gather feedback from ASB members. Agenda Items 6A and 6B may also be used for discussion purposes; so, ASB members are encouraged to read those exhibits in advance of the ASB meeting.

#### IV. PIE standard setting update: IAASB and PEEC

##### IAASB

##### *Relevant Background*

The ASB is aware that the IAASB is considering narrow-scope revisions to the ISAs and ISQMs to respond to revisions to the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) regarding listed and public interest entities.

The core revised provisions<sup>1</sup> to the IESBA Code include an expanded definition of PIEs by specifying a broader list of PIE categories, including a new category “publicly traded entity” to replace the category “listed entity.” The revised provisions also recognized the role local bodies responsible for the adoption of the IESBA Code play in delineating the specific entities that should be scoped in as PIEs in their jurisdictions, encouraging them to properly refine the PIE categories in the expanded definition and adding any other categories relevant to their environments. Further, the revisions introduced a transparency requirement for firms to publicly disclose the application of independence requirements for PIEs where they have done so.

In response, the IAASB's project<sup>2</sup> has two tracks:

1. Track 1: A fast-moving track focused on enhancing transparency about independence in the auditor's report.
2. Track 2: Exploring revisions to the ISAs and ISQMs regarding the differential requirements for listed entities and the definition of listed entities, including whether the differential requirements should apply to PIEs.

##### *March 2023 IAASB Meeting Recap*

Following the 2022 public consultation for proposed revisions to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* (ISA 700); and ISA 260 (Revised), *Communication with Those Charged with Governance* (ISA 260), the IAASB discussed respondents' feedback from the public consultation and the proposed way forward during its March 2023 meeting. Some key takeaways include:

1. Consistent with the majority of the comment letters responses received, the IAASB believes that the auditor's report is a clear mechanism that can be used to operationalize the IESBA transparency requirement.
2. Currently, most of the IAASB, along with a majority of comment letter responses received, continue to support a *conditional* auditor's report disclosure requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied.
3. In the proposed ISA 260, paragraph A29 application guidance, there is a discussion about the statement an auditor may make to those charged with governance about which independence requirements were applied when the relevant ethical requirements may include additional or differential requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements (such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code). Whereas the IAASB's PIE task force proposed further addressing such matters as part of Track 2's differential requirement assessment, the IAASB directed to the PIE task force to explore for the June 2023 meeting how to address them in

<sup>1</sup> For further information, refer to the IESBA Code [revisions](#). Additionally, in the first half of 2023 the IESBA issued a [Staff Questions and Answers](#), which is intended to assist national standard setters, professional accountancy organizations, and auditors as they adopt, implement or apply the revisions to the definitions of listed entity and public interest entity, and related provisions. The IESBA staff also published a [database](#) listing the types of entities that various jurisdictions have scoped in as PIEs at the local level.

<sup>2</sup> For further information, refer to the IAASB's Listed Entities and PIE [project page](#).

Track 1. Many IAASB member believe that such independence matters are a statement of fact, rather than “differential”, and it would be appropriate to consider how situations should be addressed as requirements in Track 1 work of the IAASB.

4. In consideration of the comment letter feedback received, the IAASB agreed to address as part of Track 2 to revise ISRE 2400 (Revised) to address transparency for reviews of historical financial statements.

Following the March 2023 discussion, the approval of revisions to ISA 700 and 260 are expected at the June 2023 IAASB meeting. If approved, the revisions will be effective for periods beginning on or after December 15, 2024. This timing is consistent with the final revisions to the IESBA Code that were approved in December 2021.

There have been no new developments for Track 2 since the IAASB’s December 2022 meeting<sup>3</sup>.

## PEEC

### *Relevant Background*

The PEEC has undertaken a project to assess convergence with the IESBA’s revisions to their definition of listed entity and public interest entity. IESBA’s new PIE definition contains three mandatory categories of PIEs. Refer to **Appendix B** for an overview of the relevant requirements and the application guidance in the IESBA Code regarding PIEs.

The PEEC has assessed the IESBA code includes separate and, in many cases, more restrictive independence provisions for PIEs. In contrast, the AICPA Code of Professional Conduct (AICPA Code) does not contain separate independence provisions for PIEs; rather, under the extant AICPA Code regarding PIEs, members should refer to the independence regulations of applicable authoritative regulatory bodies when a member performs attest services and is required to be independent of the attest client under such regulations. Refer to **Appendix C** for further information about the extant definition of a PIE in the AICPA Code.

Refer to Agenda Items 6A and 6B for further information regarding the May 2023 PEEC Open Meeting and the PEEC PIE ED.

### *May 2023 PEEC Open Meeting Key Takeaways*

On May 9, 2023 the PEEC approved for public exposure a new definition of publicly traded entity and a revised definition of public interest entity. Among the provisions in the PEEC PIE Exposure Draft that are seen by the staff and ASB PIE Task Force Chair to be most relevant to the ASB’s potential standard-setting activities:

1. **Definitions.** The PEEC has proposed a new definition for publicly traded entity and a revised definition of PIE be included in the AICPA Code of Professional Conduct (AICPA Code).
  - a. The PEEC proposal includes the IESBA mandatory categories in the definition of PIE, but as explained in the PEEC explanatory memorandum to the ED and as further updated during the May 9<sup>th</sup> open meeting discussion, the PEEC has in some cases refined/narrowed which U.S. based entities fit the mandatory categories or established certain thresholds.
  - b. The PEEC also proposed a new category to include investment companies (including mutual funds), that are registered with the U.S. Securities and Exchange Commission (SEC)

<sup>3</sup> For further information, refer to the [IAASB’s summary](#) of the key discussion items from the December 2022 meeting.

pursuant to the Investment Company Act of 1940 except those that are insurance company products.

- c. However, for all proposed categories, the PEEC refers a member to follow the relevant regulators (i.e., governmental bodies, commissions, or other regulatory agencies) for purposes of applying the specific independence requirements to be followed by a member f.

2. **Applicability to Members.** The new and revised definitions will be applicable to *members in public practice*<sup>4</sup>, however, the PEEC has explained its proposal as follows:

- a. For members in public practice that are part of firms that voluntarily join the [IFAC Forum of Firms](#), when a member firm is required to follow the IESBA Code and those IESBA PIE rules are more restrictive than the relevant U.S. regulator referred to in the categories of the proposed PIE definition, such firms would need to apply the more restrictive IESBA PIE requirements.
- b. A member who does not belong to a firm that is part of the Forum of Firms would continue to comply with the AICPA and applicable regulators' rules.

3. **Engagement Scope.** Whereas the Part 4A to the IESBA Code concerning PIEs deals with audits and reviews of financial statements, the PEEC has proposed that when a member performs a financial statement audit or review subject to the regulatory requirements described in the definition of a public interest entity, the member should comply with the applicable independence requirements as required by the regulator.

4. **Non-mandatory PIE Treatment.** Whereas the IESBA's application guidance also encourages firms to consider whether to treat additional entities as PIEs, the proposed PEEC PIE definition removes the IESBA language which encourages this consideration by a member. In doing so, the PEEC believes the AICPA Code, with or without this language, allows a member to apply enhanced independence requirements and treat the client as a PIE, where appropriate.

The effect of this proposal is to remove from the extant AICPA Code PIE definition the language referring to "The member may wish to consider..." Refer to **Appendix C** for further description of a PIE under the extant AICPA Code.

5. **Firm Transparency.** Whereas the IESBA's standard includes a transparency requirement where the firm shall publicly disclose that the firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the PEEC is not proposing to incorporate such a transparency requirement into the AICPA Code. The PEEC believes the transparency requirement will be achieved through the regulations requiring disclosure of the applicable independence standards in the auditor's report or through a letter attached to the auditor's report in the case of the National Association of Insurance Commissioners (NAIC) requirements.
6. **Request for Comments.** Among other questions, the PEEC PIE ED poses questions related to select matters that are important to the ASB's potential standard-setting activities. Those questions relate to whether:

[Note: for purposes of this discussion memo, these select questions are paraphrased from those listed in Agenda 6B]:

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<sup>4</sup> A Member in Public Practice in the AICPA Code is defined as a "A member, associate member, affiliate member, or international associate of the AICPA" (paragraph 0.433).



- a. Responders agree with the PEEC decision to defer to the relevant regulators for purposes of the specific independence requirements for firms applicable to each PIE category?
- b. There are situations where a member would treat an engagement subject to the AICPA Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, or Statements on Standards for Attestation Engagements as a PIE that doesn't otherwise meet the definition of a PIE? If so,
  - i. Whether when circumstances for a firm result in the entity being treated as PIE, what nonauthoritative guidance might be needed?
  - ii. Whether responders believe in such situations the member should be required to disclose that the independence requirements for public interest entities have been applied? If so, how do responders believe such disclosure should be achieved when the regulator's transparency requirement is not applicable?
- c. Responders agree that the effective date provides adequate time to implement the proposals?

7. **Effective Date.** The proposed effective date for financial statement audit and review services for periods beginning on or after December 15, 2024, with early adoption permitted.

## V. Initial Analysis

The ASB's PIE discussions in July 2022 and October 2022 included a decision framework, primarily based on the decisions (or lack thereof) of the PEEC that could trigger a standard setting action or decision required of the ASB. The July/October 2022 decision framework for such considerations is noted in **Appendix A.**

However, in consideration of the PEEC's PIE proposal and rationale for its decisions, and considering the ASB's need to evaluate convergence with the IAASB and the IAASB's expected final decisions in June 2023 to amend ISA 700 and ISA 260, the staff believes the following are among the most important issues impacting the ASB's next steps:

1. **Confirming the ASB's triggering event.** While the anticipated approval of the IAASB's ISA 700/260 changes in June 2023 would normally be a definitive triggering event for the ASB to assess convergence, we believe that the decisions reflected and pending feedback of the PEEC ED is the more consequential starting point for the ASB to consider potential standard setting actions. This is primarily because the PEEC's proposal is essentially directing audit firms to follow the auditor independence and transparency requirements of an existing set of law or regulations. In one sense, the PEEC's proposal eliminates the need of the ASB to take on a separate standard-setting project. The benefits of the PEEC's approach are the narrow application of their proposal and the consistency between international and U.S. frameworks for those members affected. However, the responses from comment letter respondents may disagree with the PEEC's approach. The ASB may need to wait until Q4 2023 when comment letter responses are anticipated to be discussed by the PEEC to evaluate how to proceed.
2. **Engagement scope.** The recent PIE revisions to the IESBA Code, including the firm independence transparency requirement, make the IESBA Code applicable to all audit and review engagements for entities that are treated as PIEs. The IAASB's expected changes to ISA 700 and ISA 260 follow suit. However, the proposed definitions by PEEC appear to be designed for only certain audit and review engagements for members in practice. Notwithstanding feedback the PEEC may receive during the open response period, we believe it would be very difficult for the ASB to proceed with highly refined and tailored auditor reporting requirements for certain members and for certain engagements should the need arise to consider such an approach.

Also, while the PEEC proposal notes that a member should comply with the applicable independence requirements only as required by a regulator when a member performs a financial statement audit or review subject to the regulatory requirements described in the proposed PIE definition, the ASB has previously expressed<sup>5</sup> that the practitioners review report should not include transparency about the relevant ethical requirements for independence applied for certain entities. The ASB stated its belief that it is in the public interest that the review report be different from the auditor's report so that a user would not potentially misinterpret the review report, especially if the user does not understand the lower level of assurance obtained in a review engagement.

3. **Time to implement and effective date.** The PIE revisions in the IESBA Code, the anticipated final approval of changes to ISA 700/260 by the IAASB, and the PEEC's proposal are all aligned toward an effective date for financial statement audit and review services for periods beginning on or after December 15, 2024. The PEEC has posed a question to respondents about whether that timing is adequate to allow members in practice to implement the proposed changes. Unclear to us are the adverse consequences, if any, for members in practice and the PEEC should the PEEC (and potentially the ASB) be unable to finalize respective PIE decisions to align with the December 2024 timing. However, based on the language in the ED, it appears action by the ASB would not be necessary. So, there may not be an issue with timing, unless something changes in the final standard approved by PEEC.
4. **IAASB Track 2.** Long-term, perhaps most consequential to the ASB's standard setting work is what, if any, convergence actions may be considered given Track 2 of the IAASB's overall PIE project, which is focused on aligning terms and concepts related to PIEs and listed entities with the IESBA Code, but also to establish certain differential requirements for PIEs. As of May 9, 2023 the IAASB has indicated the following Track 2 timing:

	Information Gathering, 1 <sup>st</sup> Board Discussion	Project Proposal	Exposure Draft	Comment Period Closes	Final Approval
<b>Track 1 – Transparency in the Auditor's Report</b>	July 2020	March 2022	June 2022	October 2022	June 2023
<b>Track 2 – Objective and Guidelines, Definitions, and Differential Requirements</b>	July 2020	March 2022	September 2023 (approval)  February 2024 (release for public comment)	May 2024	December 2024

We have previously raised concerns that the IAASB is in practice treating each track of its PIE project as two independent projects because we see some natural link between two tracks (that is, differential requirements for PIEs might change how auditor independence in fact or appearance is seen by others, including regulators). Should the ASB ultimately decide that no standard setting action related to the auditor's report is needed because the PEEC's proposal to follow the requirements of an applicable regulator are appropriate, we nevertheless anticipate that it would be challenging for the ASB to also consider for convergence any potential IAASB's differential

<sup>5</sup> Refer to the ASB's [comment letter](#) to the IAASB's proposed narrow scope PIE-related amendments to ISA 700 and ISA 260.

requirements promulgated over time when the AICPA Code, if it adopted the PEEC proposal as is, directs members in practice to only follow differential reporting PIE requirements to the extent they exist in the law or regulation at the time of the PIE audit or review.

**VI. Action Requested of the ASB**

The ASB is asked for its perspectives about the developments of the respective IAASB and PEEC PIE projects. Specifically, the ASB is asked to respond to the following:

1. Is the July/October 2022 decision-framework still applicable?
2. Does the ASB share our view of the key matters in Section V above?

Appendix A: Decision-tree framework discussed in July 2022 and October 2022

## Key Decisions Needed by PEEC and ASB

Key:	Blue box = PEEC Action
	Maroon box = ASB Action
	Red box = Urgent
	Yellow box = Caution

**IESBA's PIE Definition:** A firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- a) A publicly traded entity;
- b) An entity one of whose main functions is to take deposits from the public;
- c) An entity one of whose main functions is to provide insurance to the public; or
- d) An entity specified as such by law, regulation or professional standards to meet the purpose described in 400.10.

**IESBA Transparency Requirements:**

Audit firms must explicitly disclose whether the firm has applied the applicable independence requirement under the relevant ethical framework

**IAASB Requirements: TBD**

1. Will PEEC change AICPA's definition of PIE?

Yes

No

Or delayed

2. Will PEEC develop a transparency requirement?

Yes

No

Or delayed

3. ASB action to address transparency is necessary

4. ASB action to converge with IAASB change in auditor's report is possible but unlikely

**AICPA PIE Definition:** All of the following:

- a) All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.
- b) Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same *independence* requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

**AICPA Transparency Requirements:**

Ethics Code: TBD

AU-C Section 700 para .28c and A39 state:

- The report is required to include 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.
- When independence and other relevant requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources.

## Appendix B:

### Summary of the relevant PIE provisions and application guidance in the IESBA Code

IESBA's new PIE definition contains three mandatory categories of PIEs:

- a. A publicly traded entity
- b. An entity one of whose main functions is to take deposits from the public
- c. An entity one of whose main functions is to provide insurance to the public

It also contains a general category:

- d. *An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10<sup>1</sup>.*

The application guidance explains that bodies responsible for setting ethics standards are expected to define these categories more explicitly (that is, refine) to fit their jurisdictions. The application guidance also

- a. indicates that bodies responsible for setting ethics standards are expected to add categories but are *not* expected to remove any.
- b. encourages firms to consider whether to treat additional entities as PIEs.

The application guidance provides ethics standards-setting bodies with a list of factors to consider when refining these categories (that is, determining what entities should be considered PIEs because there is significant public interest in the entity's financial condition). Additional factors are also provided to help firms with their evaluation of whether additional entities should be treated as PIEs.

The factors provided for ethics standards-setting bodies to consider are as follows:

1. Nature of the business or activities, such as the holding of assets in a fiduciary capacity for a large number of stakeholders taking on financial obligations to the public as part of the entity's primary business. Examples might include financial institutions, such as banks and insurance companies, and pension funds
2. Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations
3. Size of the entity
4. Importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure
5. Number and nature of stakeholders including investors, customers, creditors and employees
6. Potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity

These are the additional factors IESBA provided for *firms* to consider:

7. Whether the entity is likely to become a PIE in the near future
8. Whether in similar circumstances, a predecessor firm has applied independence requirements for PIEs to the entity
9. Whether in similar circumstances, the firm has applied independence requirements for PIEs to other entities
10. Whether the entity has been specified as not being a PIE by law, regulation, or professional standards

11. Whether the entity or other stakeholders requested the firm to apply independence requirements for PIEs to the entity and, if so, whether there are any reasons for not meeting this request
12. The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management

**Appendix C: As of December 2021, AICPA Code Definition of Public interest entities (0.400 Definitions)**

All of the following:

- a. All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.
- b. Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same *independence* requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

*Members* may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include

- the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;
- size; and
- number of employees.

*Members* should refer to the *independence* regulations of applicable authoritative regulatory bodies when a *member* performs attest services and is required to be independent of the *attest client* under such regulations.

## IESBA convergence: Public interest entities

### Task force members

Lisa Snyder (chair), Cathy Allen, Greg Collins, Nancy Miller, Andrew Prather, Katherine Savage

### Observers

Alina Kalachnyuk, Brandon Mercer

### AICPA staff

Jennifer Clayton, Ellen Gorla

### AICPA monitoring staff

Jason Brodmerkel, Mary Foelster, Ahava Goldman, Sue Hicks, Kim Kushmerick, Melinda Nolan, Brian Wilson

### Recommendations

IESBA's new PIE definition contains three mandatory categories of PIEs. The IESBA code includes more restrictive independence requirements for financial statement audits and reviews of PIEs than does the AICPA code. These three mandatory categories are already heavily regulated in the United States by the SEC, PCAOB, NAIC, and FDIC and these regulators have established appropriate independence requirements for the entities that they oversee.

The task force recommends a new definition for PTE and a revised definition of PIE be included in the code. The revised definition of PIE will include the IESBA mandatory categories but defer to the relevant regulators for purposes of the specific independence requirements. This approach eliminates the need to add a separate set of independence standards to the code.

### Task force activities

At the February 2023 PEEC meeting, the task force presented a proposed exposure draft with a new definition of publicly traded entity and a revision to an existing definition of public interest entity.<sup>1</sup> PEEC discussed the proposal and requested revisions to clarify to which attest services the public interest entities definition should apply. This seems a necessary clarification given that IESBA's PIE requirements currently apply only to financial statement audit and review clients. PEEC also discussed whether this scope would best be conveyed to members in the definition, in an interpretation, or in nonauthoritative material.

The task force incorporated changes accordingly.

Through further reflection and deliberation, the task force has further refined two proposed

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<sup>1</sup> See the PIE material in the [February 2023 PEEC meeting agenda](#). See the [meeting minutes related to PIE](#).



categories and eliminated two categories previously presented to PEEC.

#### Insurance companies

The category capturing entities that provide insurance to the public (category c.) was initially refined to include entities that are subject to the NAIC Annual Financial Reporting Model Regulation ([Model Audit Rule, or MAR](#)) whose auditor is required to follow independence requirements included in Section 7 (Qualifications of Independent Certified Public Accountant) of the Model Audit Rule. This refinement would have included any insurer who has more than 1,000 policy holders and more than \$1 million in direct premiums or assumed premiums pursuant to contracts and treaties of reinsurance (or both).

However, the NAIC has recognized a heightened risk for insurers with annual direct premiums and assumed premiums of over \$500 million. When that threshold is reached, several requirements in the MAR are triggered specific to the makeup of the insurer's audit committee, internal audit function requirements, and reporting of management to the insurance commissioner of the insurers' internal control over financial reporting. Therefore, category c. should include only those entities that meet this heightened risk threshold.

This refinement places significant importance on the size of the entity, which is a factor IESBA recommends considering during the refinement process. This is also similar to the refinement proposed for entities that take deposits from the public in category b.

Current data indicates that companies in public groups and nonpublic companies with greater than \$500 million in annual direct premiums and assumed premiums represent approximately 45 percent of all insurers and 95 percent of total gross premiums as of December 31, 2021. Accordingly, using this threshold approximately 45 percent of all insurers will be included in categories a. and c.

Section 15 of the MAR on internal audit function requirements applies to insurers with \$500 million or greater in annual direct written and assumed premiums, and groups of insurers that have annual direct written and assumed premiums of \$1 billion or greater. If this additional threshold for groups of insurers was added to the proposed threshold for individual insurers, some smaller insurers that are part of a group of insurers that would not otherwise be picked up by the \$500 million threshold would be considered PIEs. The NAIC did not provide statistics on the number of insurers and gross premiums for these group insurers.

#### Investment companies

Further refinement is also being proposed to the category that captures an investment company or similar product that is registered with the SEC (category d.). Originally, this refinement would have captured investment companies that are registered and available to the public but also similar products registered with the SEC.

Category d is now refined to capture only investment companies that are registered with the SEC pursuant to the Investment Company Act of 1940. The category does not include insurance company products since they are captured in category c. Only entities with broad public interest are treated as PIEs (for example, mutual funds that are available to the public) whereas entities such as nontraded real estate investment trusts (REIT) are not treated as PIEs.

### Benefit plans

The February 2023 agenda papers previously included employee benefit plans that are required to file Form 11-K, as follows:

An employee benefit plan that is required to file Form 11-K with the SEC under Section 15(d) of the Exchange Act.

These plans have a company stock fund component, that allows participants to invest in the sponsor company's publicly traded stock. Auditors of these plans must comply with the SEC issuer independence rules. Like other employee benefit plans, the interest in the financial condition of the benefit plan filing a Form 11-K is limited to plan participants as opposed to the broader public interest, which is a factor IESBA recommends considering during the refinement process.

The task force eliminated this category because the public interest consideration is in the financial condition of the plan sponsor rather than the plan itself and the plan sponsor would already be captured under category a.

### General category

The February 2023 agenda papers previously included a general category. Building off the extant definition of PIE, this new general category captured any other entities required by regulation or law to have an audit conducted in compliance with the same independence requirements that apply to an audit of an issuer.

Any entity, ***other than those set forth in a. – e. above***, for which an audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to an audit of ***an issuer, as defined in Section 10A(f) of the Securities Act of 1934***. ~~listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).~~

Including this category could pull in entities that are not intended to be treated as PIEs. Any additional categories added as PIEs should be subject to committee deliberation and public exposure so that there is agreement about when an entity's financial condition has broad public interest. The task force, therefore eliminated this category.

### Application of extant definition of PIE

Not-for-profit and governmental entities that have bond debt — either through issuance or

conduit debt — are explicitly excluded as PIEs in the proposed definition.

Though not explicitly excluded from the extant definition, such entities will not be considered PIEs because the bonds are traded through brokerage accounts rather than on a recognized stock exchange. As well, they are not marketed under the regulations of a recognized stock exchange or other equivalent body.

### Enforceability

The committee is asked whether the “compliance requirement” in the last paragraph of the proposed PIE definition should remain in the definition or if it should be moved to a new interpretation under the Independence rule.

If the committee believes this requirement should be moved to a new independence interpretation instead, the task force recommends the committee consider the following:

#### 1.200.007 Public Interest Entities

- .01 When an entity meets the definition of a public interest entity and a member performs for that entity a financial statement audit or review subject to the regulatory requirements described in a.-d. in the definition, the members should comply with the applicable independence requirements as required by the “Governmental Bodies, Commissions, or Other Regulatory Agencies” interpretation [1.400.050] of the “Acts Discreditable Rule” [1.400.001].

#### Questions for the committee

1. Does the committee agree that not-for-profit and governmental entities that have bond debt (either through issuance or through conduit debt) are not PIEs under the current definition?
2. Does the committee agree with the refinements to the insurance category or does the committee believe the group threshold should also be included?
3. Does the committee agree with the refinement to the investment company category?
4. Does the committee agree with eliminating employee benefit plans that file Form 11-K and general categories?
5. Does the committee believe the “compliance requirement” should be moved to an interpretation in the code?
6. Does the committee approve exposure of the proposed revision and addition as presented in agenda item 1B?
7. Does the committee agree that the exposure period should extend to September 15, 2023?
8. Does the committee agree with the proposed effective date for financial statement audit and review services for periods beginning on or after December 15, 2024, with early adoption permitted?

#### Action needed

The committee is asked to approve for exposure the proposed revision and addition in agenda item 1B. Given the complexity of the topic, staff recommends comments be requested by September 15, 2023.

#### New IESBA materials

Since the February 2023 PEEC meeting, IESBA has issued [PIE Q&As](#) and a [Public Interest Entity Database](#).

#### Materials presented

Agenda item 1B: Proposed new definition of publicly traded entity and revised definition of public interest entity

## Proposed new definition of publicly traded entity and revised definition of public interest entity

### Invitation to comment

MONTH DAY, 2023

Are you interested in the ethics of accounting? If so, we want to hear your thoughts on this ethics exposure draft. Your comments are integral to the standard-setting process, and you don't need to be an AICPA member to participate.

This proposal is part of the AICPA's Professional Ethics Executive Committee (PEEC) project to converge with the International Ethics Standards Board for Accountants (IESBA) revisions to their definition of listed entity and public interest entity.

This exposure draft explains the proposed revisions to the AICPA Code of Professional Conduct and includes the full text of the guidance under consideration.

At the conclusion of the exposure period, PEEC will evaluate the comments and determine whether to publish the new definition and revised definition.

Again, your comments are an important part of the standards-setting process — please take this opportunity to provide feedback. We must receive your response by September 15, 2023. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at [www.aicpa.org/peecprojects](http://www.aicpa.org/peecprojects).

Please email your comments to [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org).

Sincerely,

Brian S. Lynch, Chair  
Professional Ethics Executive Committee

Toni Lee-Andrews, Director, CPA, PFS, CGMA  
Professional Ethics Division

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## Explanation of the new definition and revised definition

The Professional Ethics Executive Committee (PEEC) is exposing for comment a new definition and a revision to a definition:

- New definition of “publicly traded entity” (ET sec. 0.400.43)
- Revised definition of “public interest entity” (ET sec. 0.400.41)

This project is part of our ongoing efforts to converge the AICPA Code of Professional Conduct (code) with that of the International Ethics Standards Board for Accountants (IESBA).

If adopted as final, the new and revised definitions will be applicable to members in public practice.

### Overview

1. IESBA revised their [Definitions of Listed Entity and Public Interest Entity](#). The IESBA code includes separate and, in many cases, more restrictive independence provisions for public interest entities (PIEs). For example, the IESBA code prohibits members from providing non-assurance – or nonattest – services to a PIE audit or review client if that service might create a self-review threat. In contrast, the AICPA code does not contain separate independence provisions for PIEs. IESBA’s new PIE definition contains three mandatory categories of PIEs:

- a. A publicly traded entity
- b. An entity one of whose main functions is to take deposits from the public
- c. An entity one of whose main functions is to provide insurance to the public

It also contains a general category described as an entity specified as such by law, regulation, or professional standards to meet the purpose described in paragraph 400.10.<sup>1</sup>

2. IESBA’s application guidance explains that bodies responsible for setting ethics standards

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<sup>1</sup> Paragraph 400.10 states “*Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s financial statements that can be used when assessing the entity’s financial condition.*”

are expected to refine these categories more explicitly to align with their jurisdictions. The application guidance also

- a. indicates that bodies responsible for setting ethics standards are expected to add categories but are not expected to remove any.
  - b. encourages firms to consider whether to treat additional entities as PIEs.
3. The application guidance provides ethics standard-setting bodies with a list of factors to consider when determining whether an entity should be considered a PIE because there is significant public interest in the entity's financial condition.

These are the factors provided for ethics standard-setting bodies to consider:

- a. Nature of the business or activities, such as the holding of assets in a fiduciary capacity for a large number of stakeholders taking on financial obligations to the public as part of the entity's primary business. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- b. Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- c. Size of the entity.
- d. Importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- e. Number and nature of stakeholders including investors, customers, creditors and employees.
- f. Potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

#### Current regulation in the United States

4. The three mandatory categories covered by the new IESBA PIE definition are already heavily regulated in the United States by the SEC, PCAOB, FDIC, and the National Association of Insurance Commissioners (NAIC). These regulators have established appropriate independence requirements for the entities they oversee.
5. As such this proposal includes the mandatory categories in the definition of PIE but defers to the relevant regulators for purposes of the specific independence requirements. Adding a separate set of independence standards to the code for PIEs would add significant complexity to the code, which could also result in inconsistencies between the code and the



rules of a particular regulator.

6. Firms that voluntarily join the [IFAC Forum of Firms](#) have committed to comply with the IESBA code, as a condition of their membership, and therefore must also apply the IESBA PIE requirements to all financial statement audit and review engagements performed for a PIE. In cases in which the IESBA PIE rules are more restrictive than the relevant U.S. regulator referred to in the categories of the proposed PIE definition, such firms would need to apply the more restrictive IESBA PIE requirements. A member who does not belong to a firm that is part of the Forum of Firms would continue to comply with the AICPA and applicable regulators' rules.

#### Mandatory Category 1: Publicly traded entity (SEC and PCAOB)

7. The first mandatory category of PIE is "publicly traded entity." IESBA adopted the following definition of publicly traded entity to help users understand what would be included in this category:

*An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.*

*A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.*

8. The new IESBA definition includes not only entities whose shares, stock or debt are traded on formal exchanges but also those entities trading on second-tier markets or over-the-counter (OTC) trading platforms.
9. The IESBA definition of "publicly traded entity" is appropriate to use in the AICPA PIE definition. However, IESBA's example of "listed entity" is eliminated because the common term for this type of entity in the United States is "issuer."<sup>2</sup>
10. The SEC independence rules apply to auditors of issuers and certain non-issuers. The SEC independence rules that apply to issuer audits are in many respects considered to be substantially similar to IESBA's independence requirements for PIEs. This conclusion is

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<sup>2</sup> The term "issuer" means an issuer (as defined in Section 3 of the Securities Exchange Act of 1934), the securities of which are registered under Section 12 of that Act, or that is required to file reports under Section 15(d) of that Act, or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and that it has not withdrawn.

supported by IESBA's [benchmarking report](#).

11. Accordingly, this proposal refines this PIE category to extend only to those entities whose auditors are subject to the SEC **issuer** independence rules.

SEC independence rules that apply to issuer and non-issuer audits	Additional SEC independence rules that apply to issuer audits <sup>3</sup>
<ul style="list-style-type: none"><li>• General standard of auditor independence (Rule 2-01(b))</li><li>• Financial relationships (Rule 2-01(c)(1))</li><li>• Employment relationships (Rule 2-01(c)(2)(i)-(iii)(A) and (c)(2)(iv))</li><li>• Business relationships (Rule 2-01(c)(3))</li><li>• Non-audit services (Rule 2-01(c)(4))</li><li>• Contingent fees/commissions (Rule 2-01(c)(5))</li></ul>	<ul style="list-style-type: none"><li>• Employment cooling-off for former members of the audit engagement team (Rule 2-01(c)(2)(iii)(B)-(C))</li><li>• Partner rotation (Rule 2-01(c)(6))</li><li>• Audit committee administration of the engagement (that is, audit committee pre-approval) (Rule 2-01(c)(7))</li><li>• Audit partner compensation (Rule 2-01(c)(8))</li></ul>

12. The AICPA's proposed new definition of "publicly traded entity" includes financial instruments of certain non-issuers such as governmental bonds and certain entities listed on the OTC trading platforms.
13. However, the refined scope in the revised definition of "public interest entity" clarifies that inclusion of such financial instruments in the definition of PIE depends on whether auditors of these entities are subject to SEC issuer independence rules.
14. Issuers, publicly available mutual funds, and entities listed on the OTC trading platforms are considered PIEs if their auditors are subject to SEC issuer independence rules. Entities are not considered PIEs if their auditors are not subject to issuer independence rules.
15. This aligns with IESBA's goal for the new definition to not only include entities having shares, stock, or debt traded on formal exchanges but to also include entities that trade on second-tier markets or OTC trading platforms.

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<sup>3</sup> PCAOB also has certain independence rules that apply to issuer audit clients (for example, PCAOB Rules 3523, 3524, and 3525)

## Mandatory Category 2: Deposits from the public (FDIC)

16. PEEC is refining this category to include entities that meet the annual audit requirement imposed by Sections 363.1(a) and 363.2(a) of Part 363 of the FDIC's regulations.
17. The FDIC audit requirement becomes applicable when the financial institution has more than \$500 million in assets and requires that the auditor be subject to SEC issuer independence rules. This refinement places significant importance on the size of the entity, which is a factor IESBA recommends considering during the refinement process.
18. Credit unions are not captured by this refinement as they are not subject to SEC issuer independence rules. However, they are regulated by the National Credit Union Administration (NCUA) which protects the interest of credit union members.
19. Auditors of credit unions are subject to AICPA independence rules. PEEC considered whether to include credit unions as a category under the PIE definition and concluded that they do not offer deposits to the public but rather, to their members. In addition, the regulator (NCUA) has deliberated and determined the appropriate independence standards auditors of credit unions should follow.
20. Accordingly, PEEC's decision to exclude credit unions places significant importance on the nature of the stakeholders (that is, members, not the public) and that these entities are subject to the supervision of a regulator, which are factors IESBA recommends considering during the refinement process.

## Mandatory Category 3: Insurance to the public (NAIC)

21. PEEC is refining this category to include only entities that are
  - a. subject to the NAIC Annual Financial Reporting Model Regulation adopted by the respective state insurance department ([Model Audit Rule or MAR](#)) and
  - b. meet or exceed \$500 million in direct and assumed premiums.
22. Current data indicates that companies in public groups and nonpublic companies with greater than \$500 million in annual direct premiums and assumed premiums represent approximately 45 percent of all insurers and 95 percent of total gross premiums as of December 31, 2021. With this threshold, categories a. and c will include approximately 45 percent of all insurers.

23. Section 7 of the Model Audit Rule has independence requirements for auditors of insurers that are subject to that rule. These independence requirements are comparable to those of the SEC issuer independence rules as they contain provisions related to the following:

- Partner rotation
- Prohibited non-audit services
- Cooling off period for employment
- Audit committee preapproval
- Good standing with the standards of the profession

24. The NAIC has recognized a heightened risk for insurers with direct premiums and assumed premiums over \$500 million. When that threshold is reached, several requirements in MAR are triggered that are related to the insurer. These requirements are as follows:

	MAR section	Requirement
Audit committee	Section 14h	Supermajority (75% or more) of the members of the audit committee shall be independent <sup>4</sup>
Internal audit function requirements	Section 15 <sup>5</sup>	Establish an internal audit function which is organizationally independent and reports to the audit committee regularly
Management's report of internal control over financial reporting	Section 17	Management has to prepare and file a report with the insurance commissioner of the insurer's internal control over financial reporting

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<sup>4</sup> In order to be considered independent, a member of the audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee, accept any consulting, advisory or other compensatory fee from the entity or be an affiliated person of the entity or any subsidiary thereof.

<sup>5</sup> Individual insurers are subject to this requirement if they have annual direct written and assumed premiums of \$500 million or greater. In addition, when the insurer is a member of a group of insurers, the group will be subject to this requirement if the group has annual direct written and assumed premiums of \$1 billion or greater.

25. Other identified insurance entities that do not have uniform application of MAR-specific requirements or regulations vary by state and include the following:

- a. Health maintenance organizations, managed care organizations, health care entities
- b. Warranty companies
- c. Captives
- d. Risk retention groups

26. These entities are not included in the refined PIE category as there is not uniform application of MAR. However, PEEC acknowledges regulators in the states, through either the departments of health or departments of insurance, determine the appropriate independence rules the auditors of these other entity types are required to follow.

#### Additional recommended categories

27. IESBA's application guidance indicates that ethics standard-setting bodies are expected to add categories. The application guidance identifies the following possible categories:

- a. Pension funds
- b. Collective investment vehicles
- c. Private entities with large numbers of stakeholders (other than investors)
- d. Not-for-profit organizations or governmental entities
- e. Public utilities

28. PEEC's consideration of additional categories for possible inclusion in the PIE definition are described in the following sections.

#### New Category: Investment companies

29. PEEC is proposing a new category to capture investment companies (including mutual funds) that are registered with the SEC pursuant to the Investment Company Act of 1940 (the 1940 Act) except those that are insurance company products. By limiting this category to only 1940 Act investment companies that are not products of an insurance company, PEEC is treating only those investment companies that have significant public interest as a PIE (for example, a mutual fund that is available to the public). Entities such as non-traded real estate investment trusts (REIT) would not be considered a PIE under this category.

30. Insurance company products (that is, products that use separate accounts such as variable annuity, variable life products, indexed linked annuity, buffered linked annuity) are already being factored into the PEEC's consideration of a PIE in category c. Therefore, insurance company products are excluded from this new category.

## Other categories considered

### Pension Funds

31. PEEC considered various types of employee benefit plans in the United States, which include plans subject to Title 1 of ERISA, governmental employee benefit plans, church plans, and other plans established and maintained solely for the purpose of complying with applicable workers' compensation, unemployment compensation, or disability insurance laws.
32. The population of employee benefit plan types is broad and includes significant variation in legal structure, governance, regulatory oversight, and type of arrangements covered (that is, limited to certain pension arrangements as opposed to other post-employment benefits such as health insurance). In considering this category, the PEEC noted that the interest in the financial condition of the plan is generally limited to the plan participants as opposed to the broader public interest which is a factor IESBA recommends considering when determining whether additional categories should be included as PIEs.
33. Plans subject to Title 1 of ERISA are required to file a Form 5500 with the Department of Labor (DOL) along with other documents to be filed with the IRS and Pension Benefit Guaranty Corporation (PBGC). ERISA established participation, vesting, and minimum funding standards along with trust requirements.
34. Plans with more than 100 eligible participants are required to have a financial statement audit performed by an independent qualified public accountant. The DOL is the regulator of these plans and recently updated their independence rules, which in some respects are more restrictive than the AICPA and SEC independence rules (for example, scope of financial relationships restrictions) but in other respects, are not as extensive as the SEC's issuer independence rules.
35. These plans regulated by the DOL are subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. Governmental employee benefit plans or public pension plans are primarily regulated under state statutes, local ordinances, and state constitutions and the laws vary widely from jurisdiction to jurisdiction. Though public pension plans have no guarantor of plan benefits, states generally have constitutional or statutory provisions that dictate how pension plans are to be funded, protected, managed, or governed.

36. PEEC separately considered whether to specifically include employee benefit plans that are required to file Form 11-K with the SEC as an additional category under the PIE definition. These plans have a company stock fund component, where participants can invest in the sponsor company's publicly traded stock and auditors must comply with the SEC issuer independence rules. These plans are subject to Title 1 of ERISA and are regulated by the DOL.
37. Like other employee benefit plans, significant interest in the financial condition of benefit plans filing Form 11-K is limited to the plan participants as opposed to the broader public interest. In addition, PEEC believes consideration of the public interest is focused on the financial condition of the plan sponsor rather than the plan itself, and the plan sponsor is already being captured under category a. of the proposed PIE definition.
38. Because of the significant variation in legal structure, governance, participant versus broad public interest and robust regulatory oversight, PEEC concluded that pension funds (including 11-K filers) should not be included in the definition of PIEs.

#### Non-issuer broker-dealers and certain funds

39. The definition of PIE excludes certain entities whose auditors are subject only to the non-issuer requirements of the SEC independence rules (see chart in paragraph 11 above) such as:
- a. non-issuer broker-dealers registered with the SEC
  - b. private funds that are advised by an investment advisor registered with the SEC where the advisor chooses to rely on the audit of the fund to meet the exemption under SEC Rule 206(4)-2, Custody of funds or securities of clients by investment advisers, under the Investment Advisers Act of 1940 (the custody rule).
40. PEEC considered whether to include these types of entities as additional categories under the PIE definition as they are subject to SEC independence rules and non-issuer broker-dealers are also subject to certain PCAOB independence rules.
41. Because the SEC has not required the auditors of non-issuer broker-dealers or these private funds to be subject to the SEC issuer independence requirements under Rule 2-01<sup>6</sup>, PEEC concluded it is not appropriate to treat these entities as PIEs and subject their auditors to more restrictive independence requirements. The public's interests are protected by the

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<sup>6</sup> In August 2003 the SEC issued a [Q&A](#) that clarified "...for brokers and dealers or investment advisors that are not issuers as defined in the Act, the auditors would not be subject to the rotation requirements, or the compensation requirements of the Commission's independence rules..."



existing independence standards required for auditors of these entities.

#### Not-for-profit and governmental entities

42. In 2018 the U.S. Government Accountability Office (GAO) strengthened the independence standards that apply to auditors of entities subject to the Yellow Book (that is, *Government Auditing Standards*).
43. The GAO's revised independence standards are in some respects more restrictive than those of the AICPA (for example, the preparation of accounting records and financial statement preparation services are considered to create significant threats to independence).
44. PEEC acknowledges that not-for-profit entities and governments that expend \$750,000 or more of federal assistance require an audit subject to the Yellow Book. Also, some state laws require compliance with the Yellow Book regardless of federal dollars received, but requirements are not consistent by state.
45. Because of the enhanced independence requirements established by the GAO and the fact that they did not believe it was necessary to adopt the more restrictive SEC issuer independence rules, combined with the application of these requirements on certain sized entities and significant variation in state requirements, PEEC concluded it is not appropriate to treat not-for-profit and governmental entities as PIEs.

#### Firm provision

46. IESBA's application guidance also encourages firms to consider whether to treat additional entities as PIEs.
47. These are the additional factors IESBA provided for firms to consider in their evaluation:
  - a. Whether the entity is likely to become a PIE in the near future
  - b. Whether in similar circumstances, a predecessor firm has applied independence requirements for PIEs to the entity
  - c. Whether in similar circumstance, the firm has applied independence requirements for PIEs to other entities
  - d. Whether the entity has been specified as not being a PIE by law, regulation, or professional standards
  - e. Whether the entity or other stakeholders required the firm to apply independence requirements for PIEs to the entity and, if so, whether there are any reasons for not meeting this request



- f. The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management

48. The proposed PIE definition removes the language which encourages this consideration by the firm. PEEC believes deletion is appropriate because typically the request to apply enhanced independence requirements is driven by the financial statement audit or review client rather than the firm. While these requests are not common occurrences in the United States, they do come about, for example, when the entity is expecting to file an initial public offering. In such cases, the member may apply the SEC issuer independence requirements and treat the client as a PIE as described under category a. of the proposed definition. PEEC believes the code, with or without this language, allows a member to apply enhanced independence requirements and treat the client as a PIE, where appropriate.
49. This exposure draft poses questions related to these circumstances to determine what nonauthoritative guidance might be needed to assist a member when this occurs. The questions will also address any transparency issues as described in the following section.

#### Transparency requirement

50. IESBA's standard also includes a transparency requirement where the firm shall publicly disclose that the firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity.
51. Because the requirement doesn't stipulate where the disclosure is made, the International Auditing and Assurance Standards Board (IAASB) has a project underway to determine where the disclosure should be made.
52. Based on the regulatory requirements applicable to each of the entities captured by the proposed PIE definition, PEEC is not incorporating the transparency requirement into the code. The transparency requirement will be achieved through the regulations requiring disclosure of the applicable independence standards in the auditor's report (or in the case of the NAIC, through a letter attached to the auditor's report).

#### Effective date

53. PEEC recommends that the proposed revisions be effective for periods beginning on or after December 15, 2024, with early implementation allowed. This date aligns with IESBA's effective date.

#### Request for comments

54. PEEC welcomes comments on all aspects of the proposed revised definition and the new definition. In addition, PEEC is seeking feedback on the following specific aspects of this proposal.

- a. Do you agree with the decision to defer to the relevant regulators for purposes of the specific independence requirements applicable to each PIE category? If not, please explain why.
- b. Do you agree with the refinement to the “publicly traded entity” category to include only those entities whose auditors are subject to Regulation SX, SEC Rule 2-01?
- c. Do you agree with the refinement to the “deposits from the public” category to include only those entities that meet the annual audit requirement imposed by Sections 363.1(a) and 363.2(a) of Part 363 of the FDIC’s regulations (12 CFR 363 – “Annual Independent Audits and Reporting Requirements”)?
- d. Do you agree with the refinement to the “insurance to the public” category to include only those entities that are subject to the NAIC Model Audit Rule and meet or exceed \$500 million in annual direct written and assumed premiums?
- e. Do you agree with the “investment company” category PEEC is proposing to include in the definition of PIE? If not, please explain why.
- f. Do you believe other entities should be included as PIEs and subject to the more restrictive independence requirements consistent with those for IESBA PIEs?
  - i. If so, which entities and why?
  - ii. If so, should the AICPA code incorporate a second set of more restrictive independence standards (that is, consistent with IESBA PIEs), applicable to these other entities? If not, please explain an alternative approach.
- g. Is the definition of “publicly traded entity” clear? If not, please explain how it should be clarified.
- h. Are you aware of situations where a member would treat an engagement subject to the AICPA Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, or Statements on Standards for Attestation Engagements as a PIE that doesn’t otherwise meet the definition of a PIE?
  - i. If so, describe such situations and which independence standards are typically applied.
  - ii. Do you believe it would be helpful to have guidance related to such situations? If so, should that guidance be authoritative, that is, included in the code, or non-authoritative guidance in the form of a FAQ?

- iii. Do you believe in such situations the member should be required to disclose that the independence requirements for public interest entities have been applied? If so, how do you believe such disclosure should be achieved when the regulator's transparency requirement is not applicable?
- i. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

DRAFT

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" ([ET sec. 0.400](#))

## Text of proposed new definition "publicly traded entity"

### 0.400 Definitions

.43 Publicly traded entity. An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" ([ET sec. 0.400](#))

## Text of proposed revised definition "public interest entity"

### 0.400 Definitions

.41 Public interest entities. ***An entity is a public interest entity when it falls within any of the All of the following categories:***

- a. ~~All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body. A~~ ***publicly traded entity whose auditor is subject to Regulation S-X, SEC Rule 2-01, "Qualifications of Accountants"***
- b. ***An entity one of whose main functions is to take deposits from the public and that meets the annual audit requirement imposed by Sections 363.1(a) and 363.2(a) of Part 363 of the FDIC's regulations (12 CFR 363 – "Annual Independent Audits and Reporting Requirements")***
- c. ***An entity one of whose main functions is to provide insurance to the public that is subject to the NAIC Annual Financial Reporting Model Regulation (Model Audit Rule) and meets or exceeds \$500 million in annual direct written and assumed premiums***
- d. ***An investment company, other than an insurance company product, that is registered with the SEC pursuant to the Investment Company Act of 1940***
- b. ~~Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same *independence* requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).~~

~~Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include~~

- ~~the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;~~
- ~~size; and~~
- ~~number of employees.~~

***When a member performs a financial statement audit or review subject to the regulatory requirements described in a.–d., a member should comply with the applicable independence requirements as required by “Governmental Bodies, Commissions, or Other Regulatory Agencies” interpretation [1.400.050] of the “Acts Discreditable Rule” [1.400.001] refer to the independence regulations of applicable authoritative regulatory bodies when a member performs attest services and is required to be independent of the attest client under such regulations. [Prior reference: paragraph .20 of ET section 100-1]***

## Acknowledgments

### Professional Ethics Executive Committee

Brian S. Lynch, Chair

Catherine Allen

Claire Blanton

Jack A. Bonner, Jr.

Thomas Campbell

Robert E. Denham

Anna Dourdourekas

Anika Heard

Jennifer Kary

Clare Levison

G. Alan Long

Nancy Miller

Randy Milligan

Donald Murphy

Kenneth Omoruyi

Katherine Savage

Lisa Snyder

Daniel Vuckovich

Jimmy Williams

Mike Womble

### Public Interest Entities Task Force

Lisa Snyder, Chair

Catherine Allen

Greg Collins

Nancy Miller

Andrew Prather

Katherine Savage

### AICPA staff

Jennifer Clayton, Associate Director – Professional Ethics

Ellen Gorla, Associate Director – Professional Ethics

### Many thanks

The Professional Ethics Division and PEEC are grateful for the input we received from observers and stakeholders while drafting these proposed changes to the Code of Professional Conduct.

## Audits of LCEs Task Force

### I. Objective of Agenda Item

To update the ASB as to the current activities of the Audits of LCEs Task Force and to obtain feedback and direction.

### II. Background and Task Force and Working Group Composition

In October 2022, the Audits of LCEs Task Force formed a separate “Audits of LCEs Benchmarking Working Group” consisting of the members of the Task Force plus an additional 5 members of the Accounting and Review Services Committee. The Task Force and Working Group composition is as follows:

<b>Audits of LCEs Task Force</b>	<b>Audits of LCEs Benchmarking Working Group</b>
Horace Emery, <i>Chair</i>	Horace Emery, <i>Chair</i>
Michael Barton	Michael Barton
Michael Brand (TIC representative)	Michael Brand (TIC representative)
Sherry Chesser	Sherry Chesser
Greg Jenkins	Greg Jenkins
Michael Manspeaker (member of ARSC)	Michael Manspeaker (member of ARSC)
	David Duckwitz (member of ARSC)
	Karen Kerber (member of ARSC)
	Douglas Koval (member of ARSC)
	Sarah McConnell (member of ARSC)
	Michael Westervelt (Chair of ARSC)

Both groups are staffed by Mike Glynn.

The Benchmarking Working Group has significant peer review representation – including past Peer Review Committee members.

### III. Task Force Recent Activities

The ASB’s comment letter on the IAASB’s Proposed Part 10, *Audits of Group Financial Statements* of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities was issued on May 2, 2023. For the ASB’s convenience, the comment letter is attached as an appendix to this discussion paper.

### IV. Working Group Recent Activities

While the Task Force’s primary objective remains to provide feedback, through the IASTF, to the IAASB regarding the continuing development of the proposed ISA for LCEs, the objective of the Working Group is to identify potential scaling opportunities. The Benchmarking Working Group compared the following 3 alternative proposed and issued standards for less complex entities to auditing standards generally accepted in the United States of America (US GAAS):

- Proposed Institute of Public Auditors in Germany (IDW) Auditing Standards for Less Complex Entities (the “proposed German Standards”)<sup>1</sup>

<sup>1</sup> The IDW issued 8 draft IDW Auditing Standards for Audits of Financial Statements of LCEs in December 2021. The exposure period ended on May 31, 2022. The final standards were issued in German in September 2022 (but not published until October 2022) and English versions of the final standards were issued in December 2022.



- Proposed Nordic standard for audits of small entities (the “proposed Nordic Standard”)<sup>2</sup>
- French NEP-911.<sup>3</sup>

The documents are not conveniently accessible via the internet. However, each of the aforementioned have been posted to the Audits of LCEs Task Force page on Microsoft teams and are available upon request.

The Working Group prepared mapping documents (using the proposed German standards as the primary base) comparing the 3 alternative standards to US GAAS in an attempt to identify potential scaling opportunities. While the individual mapping documents are not provided as part of the ASB agenda material, those documents have been posted to the Audits of LCEs Task Force page on Microsoft Teams and are available to any ASB member upon request.

The Task Force presented its findings with respect to the following AU-C sections to the ASB at the ASB’s meeting in January 2023:

- AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
- AU-C section 210, *Terms of Engagement*
- AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- AU-C section 260, *Auditor’s Communication With Those Charged With Governance*
- AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*
- AU-C section 300, *Planning an Audit*
- AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- AU-C section 500, *Audit Evidence*

Perhaps not surprisingly, the Working Group has gotten slightly bogged down in its analysis of IDW 5: Responses to Assessed Risks and the corresponding requirements in the proposed Nordic standards and NEP-911.

The following represents the Working Group’s findings with respect to certain additional AU-C sections.

**AU-C section 320, *Materiality in Planning and Performing an Audit***

All of the requirements in AU-Section 320 are included in IDW 3: Engagement Acceptance. Sections 3.3 – Determining Materiality and 3.4 – Additional Documentation Requirements of the proposed Nordic standard addresses the essential concepts from AU-C section 320.

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<sup>2</sup> The Nordic Federation of Public Accountants issued a proposed standard limited to audits of entities below the thresholds for small entities in the EU Accounting Directive in July 2015. Comments on the proposed standard were due by October 19, 2015. As stated in the exposure draft of the proposed ISA for LCEs, a significant takeaway from the comments received on the Nordic proposal was that, in order for the initiative to be successful, an international rather than a regional response was required. The proposed Nordic Standard was the impetus for the IAASB’s project to develop the proposed ISA for LCEs (Kai Morten Hagen Chaired both projects).

<sup>3</sup> The objective of the French NEP-911 is to define proportionate requirements applicable to the statutory auditor of a “small entity” when the statutory auditor has been appointed for a three year period.

As previously mentioned, the Working Group has prepared comprehensive mapping documents that contrast the alternative standards against US GAAS and such documents are available to any ASB member upon request. No scaling opportunities were identified.

**AU-C section 450, *Evaluation of Misstatements Identified During the Audit***

The essential concepts in AU-Section 450 that the respective jurisdictions believe are appropriate for the intended LCE audits are included in:

- IDW 5
- Proposed Nordic standard: 5.3 Evaluation
- NEP-911: The “Consideration of misstatements identified during the audit” section

The Working Group’s identification of requirements from AU-C section 450 that are not included in any of the alternative standards and whether such requirements are included in the exposure draft of the proposed ISA for LCEs is included as Agenda item 7A. As previously mentioned, the Working Group has prepared comprehensive mapping documents that contrast the alternative standards against US GAAS and such documents are available to any ASB member upon request.

The Working Group does not believe that the omission of any GAAS requirements results in an impediment to the auditor obtaining reasonable assurance. In addition, the Working Group did not identify any scaling opportunities.

**AU-C section 505, *External Conformations***

The essential concepts in AU-Section 505 that the respective jurisdictions believe are appropriate for the intended LCE audits are included in:

- IDW 2: Overarching Requirements
- IDW 5
- Proposed Nordic standard: The Preface; Section 5.2 – Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level
- NEP-911: The “Further audit procedures in response to the assessed risks of material misstatements” section

The Working Group’s identification of requirements from AU-C section 505 that are not included in any of the alternative standards and whether such requirements are included in the exposure draft of the proposed ISA for LCEs is included as Agenda item 7B. As previously mentioned, the Working Group has prepared comprehensive mapping documents that contrast the alternative standards against US GAAS and such documents are available to any ASB member upon request.

The Working Group does not believe that the omission of any GAAS requirements results in an impediment to the auditor obtaining reasonable assurance. In addition, the Working Group did not identify any scaling opportunities.

**AU-C section 530, *Audit Sampling***

All of the requirements in AU-Section 530 are included in IDW 5. Sections 5.2 – Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level of the proposed Nordic standard and the section headed “Further audit procedures in response to the assessed risks of material misstatement” of French NEP-911 addresses the essential concepts from AU-C section 530.

As previously mentioned, the Working Group has prepared comprehensive mapping documents that contrast the alternative standards against US GAAS and such documents are available to any ASB member upon request. No scaling opportunities were identified.

**AU-C section 540, *Auditing Accounting Estimates and Related Disclosures***

The essential concepts in AU-Section 570 that the respective jurisdictions believe are appropriate for the intended LCE audits are included in:

- IDW 5
- Proposed Nordic standard: Section 5.2 – Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level and Section 5.4 – Additional Documentation Requirements
- NEP-911: The “Further audit procedures in response to the assessed risks of material misstatement” section

The Working Group’s identification of requirements from AU-C section 540 that are not included in any of the alternative standards and whether such requirements are included in the exposure draft of the proposed ISA for LCEs is included as Agenda item 7C. As previously mentioned, the Working Group has prepared comprehensive mapping documents that contrast the alternative standards against US GAAS and such documents are available to any ASB member upon request.

There are significant requirements from AU-C section 540 that are not addressed in the alternative standards. The Task Force will consider whether the omission of those GAAS requirements results in an impediment to the auditor obtaining reasonable assurance and will bring a summary of its consideration to the ASB at a subsequent meeting.

**AU-C section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern**

The essential concepts in AU-Section 570 that the respective jurisdictions believe are appropriate for the intended LCE audits are included in:

- IDW 2
- IDW 4: Identification and Assessment of Risks of Material Misstatement
- IDW 5
- IDW 6: Concluding Audit Procedures, Communication With Those Charged With Governance and Written Representations
- IDW 7: Forming an Opinion, Auditor’s Report and Archiving
- Proposed Nordic standard: Section 4.2 – Risk Assessment Procedures and Related Activities; 6.4 – Written Representation, and 6.7 – Auditor’s Report
- NEP-911: The “Performance of the statutory audit” and “Other legal requirements assigned to the statutory auditor” sections

The Working Group’s identification of requirements from AU-C section 570 that are not included in any of the alternative standards and whether such requirements are included in the exposure draft of the proposed ISA for LCEs is included as Agenda item 7D. As previously mentioned, the Working Group has prepared comprehensive mapping documents that contrast the alternative standards against US GAAS and such documents are available to any ASB member upon request.

The Working Group does not believe that the omission of any GAAS requirements results in an impediment to the auditor obtaining reasonable assurance. In addition, the Working Group did not identify any scaling opportunities.

**V. Next Steps**

The Working Group will consider the requirements from AU-C section 540 that are not addressed in the alternative standards and bring its consideration regarding whether any scaling opportunities have been identified to the ASB at a subsequent meeting.

Additionally, the Working Group will continue its analysis on the following proposed German standards and the corresponding sections of the proposed Nordic standard and NEP-911 and will present to the ASB at a subsequent meeting:

- IDW 5 – Responses to Assessed Risk
- IDW 6 – Concluding Audit Procedures, Communication With Those Charged With Governance, and Obtaining Written Representations
- IDW 7 – Forming an Opinion, Auditor's Report and Archiving
- IDW 9 – Supplementary Requirements for Specific Circumstances

Pursuant to previous discussions with the ASB, the Task Force does not anticipate the development of a formal plan to provide scaling guidance related to US GAAS until practitioners have had the opportunity to consider and implement the guidance included in the AICPA Audit & Accounting Guide *Risk Assessment in a Financial Statement Audit*. That Guide was issued in January 2023.

**Additional Agenda Items Presented:**

Agenda item 7A	<b>Analysis of requirements in AU-C section 450 against the alternative standards</b>
Agenda item 7B	<b>Analysis of requirements in AU-C section 505 against the alternative standards</b>
Agenda item 7C	<b>Analysis of requirements in AU-C section 540 against the alternative standards</b>
Agenda item 7D	<b>Analysis of requirements in AU-C section 570 against the alternative standards</b>

**Attachment – ASB comment letter on the IAASB’s LCE Group Audits ED**

May 2, 2023

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

**Re: Exposure Draft – Proposed Part 10, *Audits of Group Financial Statements* of the Proposed International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (Exposure Draft or Proposed Part 10)**

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board’s (IAASB) above referenced Exposure Draft. The responses provided in this letter are from the perspective of an audit of the financial statements of a less complex non-issuer in the United States of America consistent with the mission of the ASB.

We<sup>4</sup> appreciate the opportunity to help inform the IAASB’s standard-setting process and are always in support of standard-setting and non-authoritative guidance that assists auditors in performing high quality audits of non-issuers. As communicated in our January 31, 2022 comment letter<sup>5</sup> on the exposure draft of the proposed ISA for LCE, we strongly support the IAASB’s efforts to address the challenges of applying the ISAs in audits of LCEs and more broadly to address the complexity, understandability, scalability, and proportionality (CUSP) of the ISAs.

We appreciate the IAASB considering stakeholder feedback and reconsidering its decision to exclude group audits from the proposed ISA for LCE and developing a proposal that addresses audits of less complex groups. Our responses to the IAASB’s Request for Specific Comments in the Exposure Draft are presented in the Appendix to this letter.

In addition to our responses in the Appendix to this letter, we wanted to bring some key concerns to the IAASB’s attention, as follows:

***Lack of Availability of Current Working Draft of the ISA for LCE***

In considering the proposed Part 10, respondents’ understanding of the proposal would have been enhanced if the entire current draft of the proposed ISA for LCE had been made available for consideration (if not comment). For example, while the summary of changes that the IAASB has made thus far to the Authority since ED-ISA for LCE is helpful, it would have been significantly more helpful if the entire text of the revised Authority was presented – in track changes from ED-ISA for LCE.

***IAASB’s Plan with Respect to Potential Re-exposure of ED-ISA for LCE***

We noted the statement in paragraph 7 of the explanatory memorandum which states “The IAASB plans to approve the ISA for LCE at its December 2023 meeting.” We interpret this statement to

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<sup>4</sup> References to “we,” “our,” or “us” refer to the AICPA’s ASB and not to the AICPA as a whole or to members or member firms.

<sup>5</sup> See [Auditing Standards Board’s January 31, 2022 comment letter](#).

mean that the IAASB does not see a need to expose the complete revised proposed ISA for LCE for additional comment.

While we can accept that the IAASB does not see a need to expose the full revised proposed ISA for LCE for additional comment, we strongly urge the IAASB to expose significant changes to the ED-ISA for LCE along with the changes to the Authority Document. The exposure draft could be structured in a manner similar to how the IAASB Task Force presented Agenda item 6-A as part of the material presented for the IAASB's March 2023 meeting.<sup>6</sup> Based on our understanding of the nature and significance of the revisions to ED-ISA for LCE, the significant changes to ED-ISA for LCE should be exposed for the following reasons:

- Without exposure of the significant changes to ED-ISA for LCE, due process will not have been followed. Several public comments were made when the ED-ISA for LCE was issued in 2021 that the ED was not at a stage that the IAASB would typically require for exposure and that consultation from stakeholders was needed in order to progress the standard.<sup>7</sup> Due process would not be followed unless, at a minimum, the significant changes to ED-ISA for LCE are exposed once the draft of the proposed standard is at a stage where the IAASB would typically expose a proposed standard. In our understanding, that would be at the stage where IAASB members would be comfortable issuing the standard as final without additional revisions.
- Exposure of the significant changes to ED-ISA for LCE would enhance global support and acceptance of the final standard. Several jurisdictions have issued, or are in the process of developing, their own standards related to audits of less complex entities. Many of those alternative standards were not available when ED-ISA for LCE was initially exposed in 2021. Stakeholders should have the opportunity to consider approaches taken in those alternative standards and benchmark against the significant changes to ED-ISA for LCE in order to provide the IAASB with appropriate feedback. In addition, the IAASB needs to understand whether local jurisdictions would be able to operationalize the ED-ISA for LCE and those jurisdictions cannot be expected to make that determination without seeing and considering, at a minimum, the significant changes to ED-ISA for LCE.
- Anything less than exposure of the significant changes to ED-ISA for LCE is not in the public interest and results in a lack of transparency and may diminish global support and acceptance of the final standard.

Because of these reasons, we urge the IAASB to publicly communicate a timeline for potential issuance of the ISA for LCE that includes an additional exposure period of the significant changes to ED-ISA for LCE.

Additionally, if the IAASB determines that exposure of the complete revised proposed ISA for LCE is not necessary, it is important that the next time a revised draft of ISA for LCE is presented to the IAASB members, it be marked to show changes from ED-ISA for LCE.<sup>8</sup>

***IAASB's Plan with Respect to Updating ISA for LCE***

Given that the IAASB currently has several significant open projects that are likely to impact audits of LCEs – such as audit evidence, fraud, and going concern, we recommend that the IAASB include in its Proposed Strategy and Work Plan the plan with respect to updating the ISA for LCEs

<sup>6</sup> See [Agenda item 6-A from the IAASB's March 2023 meeting](#).

<sup>7</sup> See [IAASB Meeting Highlights and Decisions – June 2021](#).

<sup>8</sup> It is our understanding that a full revised draft is expected to be presented to the IAASB in June 2023.

post initial issuance (for example, whether revisions will be considered as part of each ISA project going forward or whether the IAASB will only update ISA for LCEs periodically).<sup>9</sup>

***Consideration of the Work of Other Standards Setters***

The IAASB has stated that the need for a set of high-quality requirements tailored for the audits of less complex entities is a global concern. Significant efforts have been initiated and, in some cases, completed by national standards setters. For example, the AICPA has developed and issued an authoritative guide that is intended to assist auditors of less complex entities in scaling the ASB’s standard that is converged with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*. Again, we strongly urge the IAASB to consider the work of national standards setters as such efforts increase the knowledge and expertise that is incorporated in the final ISA for LCE and would reduce the risk that the ISA for LCE would not be accepted globally.<sup>10</sup>

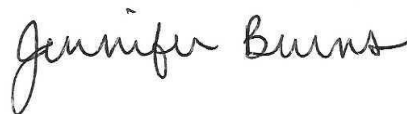
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Thank you for the opportunity to present our views on the Exposure Draft. We would be pleased to discuss our comments or answer any questions that the IAASB or staff may have regarding the views expressed in this letter. If you have any questions regarding the comments in this letter or any of the attached appendices, please feel free to contact the Chair of the ASB, Sara Lord, at [sara.lord@rsmus.com](mailto:sara.lord@rsmus.com) or the AICPA’s Chief Auditor, Jennifer Burns, at [jennifer.burns@aicpa-cima.com](mailto:jennifer.burns@aicpa-cima.com).

Respectfully submitted on behalf of the ASB,



Sara Lord  
Chair, Auditing Standards Board



Jennifer Burns, CPA  
*Chief Auditor*  
*Professional Standards and Services*

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**About the AICPA Auditing Standards Board**

The ASB is the senior committee of the AICPA designated to issue auditing, attestation, and quality control standards applicable to the performance and issuance of audit and attestation reports for non-issuers. Its mission is to serve the public interest by

<sup>9</sup> See page 8 of the [ASB’s April 11, 2023 comment letter on the IAASB’s Proposed Strategy and Work Plan for 2024-2027](#).

<sup>10</sup> See footnote 6.

developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to non-issuers in an effective and efficient manner.

**About the American Institute of CPAs**

The American Institute of CPAs® (AICPA®) is the world's largest member association representing the CPA profession, with more than 428,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organizations, and federal, state, and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent, and drives continuing education to advance the vitality, relevance, and quality of the profession.



## **Appendix – Responses to Questions in the Exposure Draft**

**IAASB Question 1:** In the Authority, do you agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved, other than in limited circumstances where physical presence is required?

**Response 1:** We agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved, other than in limited circumstances where physical presence is required – provided that our understanding of the IAASB’s intent is correct.

It is our understanding that the IAASB’s intent is to expand the applicability of the ED-ISA for LCE for engagements in which the auditor is engaged to audit the financial statements of a less-complex entity that includes components. The auditor is only permitted to use a component auditor to perform work when a physical presence is required for a specific audit procedure such as an inventory count or the verification of a physical asset performed at a component.

If our understanding is correct, while it may seem obvious to many auditors and standard setters, to avoid any confusion for a typical auditor who would use the proposed ISA for LCE, we recommend that the EEM on page 14 of 24 of the exposure draft under the heading “Component Auditors” be revised to include a statement as follows:

The auditor may involve an other auditor in the audit of financial statements that are not group financial statements (for example, to observe the inventory count or inspect physical fixed assets at a remote location). That other auditor is not a component auditor and the use of the ISA for LCE is permitted.

**IAASB Question 2:** In the Authority, do you agree with the proposed group-specific qualitative characteristics to describe the scope of group audits for which the proposed ISA for LCE is designed to be used?

**Response 2:** We have no objection to the proposed group-specific qualitative characteristics in the Authority to describe the scope of group audits for which the proposed ISA for LCE is designed to be used. However, we believe that an explicit statement should be included that clarifies that the numbers provided (such as the “e.g., 5 or less” and “e.g., 3 or less” in the Group Structure and Activities section) are intended as examples that may be relevant considerations in complying with the Authority Document in conjunction with qualitative considerations but may vary according to other factors applicable to local jurisdictions. Further, it would be helpful if the examples were presented as a range to clarify that the consideration may vary.

**IAASB Question 3:** Do you agree with the content of proposed Part 10 and the related conforming amendments?

**Response 3:** We agree with the content of proposed Part 10 and the related conforming amendments. However, we believe that a high-level summary as to how proposed Part 10 differs from ISA 600 (Revised) should have been prepared and posted to the IAASB’s website. Such a

document would have assisted respondents in performing a complete review of the proposed Part 10 and the conforming amendments. We believe that the document should be prepared and presented as part of the agenda materials when the IAASB is asked to consider the comments received on the exposure draft because it would assist the IAASB members as they consider the appropriateness of the proposed Part 10 and related amendments.

**Audits of LCEs Benchmarking Working Group**

**AU-C section 450, *Evaluation of Misstatements Identified During the Audit***

<b>AU-C section 240 Requirement Not Included in German, Nordic, or French Standard</b>	<b>Comments</b>	<b>Scaling Opportunity Related to US GAAS?</b>	<b>In proposed ISA for LCEs?</b>
<p><b>.12</b> The auditor should include in the audit documentation (Ref: par. .A33)</p> <ul style="list-style-type: none"> <li>a. the amount below which misstatements would be regarded as clearly trivial; (See paragraph .05)</li> <li>b. all misstatements accumulated during the audit and whether they have been corrected; and (See paragraphs .05-.07)</li> <li>c. the auditor's conclusion about whether uncorrected misstatements are material, individually or in the aggregate, and the basis for that conclusion. (See paragraph .11)</li> </ul>		No	<p>Yes – paragraph 7.7.1(e)</p> <p>Yes – paragraph 7.7.1(f)</p> <p>No</p>

**Audits of LCEs Benchmarking Working Group**

**AU-C section 505, External Confirmations**

<b>AU-C section 505 Requirement Not Included in German, Nordic, or French Standard</b>	<b>Comments</b>	<b>Scaling Opportunity Related to US GAAS?</b>	<b>In proposed ISA for LCEs?</b>
<p><b>.13</b> If the auditor has determined that a written response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor should determine the implications for the audit and the auditor's opinion, in accordance with section 705. (Ref: par. .A28-.A29)</p>		No	No
<p><b>.15</b> Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor should not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level, unless all of the following are present:</p>	<p>Very low (if any) assurance obtained from negative confirmations.</p>	No	No

AU-C section 505 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
<p><i>a.</i> The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion.</p> <p><i>b.</i> The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions, or conditions.</p> <p><i>c.</i> A very low exception rate is expected.</p> <p><i>d.</i> The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests. (Ref: par. .A32)</p>			

**Audits of LCEs Benchmarking Working Group**

**AU-C section 540, Auditing Accounting Estimates and Related Disclosures**

<b>AU-C section 540 Requirement Not Included in German, Nordic, or French Standard</b>	<b>Comments</b>	<b>Scaling Opportunity?</b>	<b>In proposed ISA for LCEs?</b>
<p><b>.12</b> When obtaining an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, as required by SAS No. 145, the auditor should obtain an understanding of the following matters related to the entity's accounting estimates. The auditor's procedures to obtain the understanding should be performed to the extent necessary to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Ref: <a href="#">par. .A19-.A23</a>)</p> <p><u>Obtaining an Understanding of the Entity and Its Environment and the</u></p>		No	No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p><u>Applicable Financial Reporting Framework</u></p> <p>a. The entity's transactions or other events and conditions that may give rise to the need for or changes in accounting estimates to be recognized or disclosed in the financial statements (Ref: <a href="#">par. .A24</a>)</p> <p>b. The requirements of the applicable financial reporting framework related to accounting estimates (including the recognition criteria, measurement bases, and the related presentation and disclosure requirements) and how they apply in the context of the nature and circumstances of the entity and its environment, including how the inherent risk factors affect susceptibility of assertions to misstatement. (Ref: <a href="#">par. .A25–.A26</a>)</p> <p>c. Regulatory factors relevant to the entity's accounting estimates, including, when</p>			

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>applicable, regulatory frameworks (Ref: <a href="#">par. .A27</a>)</p> <p>d. The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements, based on the auditor's understanding of the matters in <a href="#">paragraph .12a–c</a> of this section (Ref: <a href="#">par. .A28</a>)</p> <p><u>Obtaining an Understanding of the Entity's System of Internal Control</u></p> <p>e. The nature and extent of oversight and governance that the entity has in place over management's financial reporting process relevant to accounting estimates (Ref: <a href="#">par. .A29–.A31</a>)</p> <p>f. How management identifies the need for and applies specialized skills or knowledge related to accounting estimates, including with respect to the use of a management's specialist (Ref: <a href="#">par. .A32</a>)</p>			



AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p><i>g.</i> How the entity's risk assessment process identifies and addresses risks relating to accounting estimates (Ref: <a href="#">par. .A33–.A34</a>)</p> <p><i>h.</i> The entity's information system as it relates to accounting estimates, including the following:</p> <p><i>i.</i> How information relating to accounting estimates and related disclosures for significant classes of transactions, account balances, or disclosures flows through the entity's information system (Ref: <a href="#">par. .A20</a> and <a href="#">.A35</a>)</p> <p><i>ii.</i> For such accounting estimates and related disclosures, how management</p> <p>(1) identifies the relevant methods, assumptions, or sources of data, and the need for changes in them,</p>			

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>that are appropriate in the context of the applicable financial reporting framework, including how management (Ref: <a href="#">par. .A36–.A37</a>)</p> <p>(a) selects or designs, and applies, the methods used, including the use of models (Ref: <a href="#">par. .A38–.A39</a>)</p> <p>(b) selects the assumptions to be used, including consideration of alternatives, and identifies significant assumptions (Ref: <a href="#">par. .A40–.A43</a>)</p> <p>(c) selects the data to be used (Ref: <a href="#">par. .A44</a>)</p> <p>(2) understands the degree of</p>			

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>estimation uncertainty, including by considering the range of possible measurement outcomes (Ref: <a href="#">par. .A45</a>)</p> <p>(3) addresses the estimation uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements (Ref: <a href="#">par. .A46–.A49</a>)</p> <p><i>i.</i> Identified controls in the control activities component over management's process for making accounting estimates as described in <a href="#">paragraph .12h(ii)</a> of this section (Ref: <a href="#">par. .A50–.A54</a>)</p> <p><i>j.</i> How management reviews the outcomes of previous accounting estimates and</p>			

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
responds to the results of that review			
.13 The auditor should review the outcome of previous accounting estimates or, when applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. The auditor should take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgments about previous-period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: <a href="#">par. .A55–.A60</a> )		No	No
.14 With respect to accounting estimates, the auditor should determine whether the engagement team requires specialized skills or knowledge to perform the risk assessment procedures, to identify and assess the risks of material misstatement, to design and perform audit procedures to respond to those risks, or to		No	No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
evaluate the audit evidence obtained. (Ref: <a href="#">par. .A61–.A63</a> )			
<p><b>.15</b> In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, including separately assessing inherent risk and control risk, as required by SAS No. 145, the auditor should take the following into account in identifying the risks of material misstatement and assessing inherent risk: (Ref: <a href="#">par. .A64–.A71</a>)</p> <ul style="list-style-type: none"> <li>a. The degree to which the accounting estimate is subject to estimation uncertainty (Ref: <a href="#">par. .A72–.A75</a>)</li> <li>b. The degree to which one or both of the following are affected by complexity, subjectivity, or other inherent risk factors: (Ref: <a href="#">par. .A76–.A79</a>) <ul style="list-style-type: none"> <li>i. The selection and application of the method, assumptions,</li> </ul> </li> </ul>		No	Yes – paragraph 6.5.2

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>and data in making the accounting estimate</p> <p>ii. The selection of management's point estimate and related disclosures for inclusion in the financial statements</p>			
<p><b>.16</b> The auditor should determine whether any of the risks of material misstatement identified and assessed in accordance with <a href="#">paragraph .15</a> are, in the auditor's professional judgment, a significant risk.</p> <p>If the auditor has determined that a significant risk exists, the auditor should identify controls that address that risk and evaluate whether such controls have been suitably designed and implemented to mitigate such risks. (Ref: <a href="#">par. .A80</a>)</p>		No	<p>Yes – paragraph 6.5.4</p> <p>No</p>
<p><b>.18</b> As required by section 330, the auditor should design and perform tests to obtain sufficient appropriate audit evidence about the operating effectiveness of controls, if</p>			Yes – paragraph 7.3.2(d)

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p><i>a.</i> the auditor's assessment of risks of material misstatement at the relevant assertion level includes an expectation that the controls are operating effectively, or</p> <p><i>b.</i> substantive procedures alone cannot provide sufficient appropriate audit evidence at the relevant assertion level.</p> <p>In relation to accounting estimates, the auditor's tests of such controls should be responsive to the reasons for the assessment given to the risks of material misstatement. In designing and performing tests of controls, the auditor should obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control. (Ref: par. .A85-.A89)</p>			No
<p><b>.19</b> For a significant risk relating to an accounting estimate, the auditor's further audit procedures should include tests of controls in the current period if the auditor plans to rely on those controls. When the approach to a significant risk consists only of substantive procedures, those procedures</p>			No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
should include tests of details. (Ref: par. A90)			
<p><b>.22</b> In applying the requirements of paragraph .21, with respect to methods, the auditor's further audit procedures should address the following:</p> <ul style="list-style-type: none"> <li>a. Whether the method selected is appropriate in the context of the applicable financial reporting framework and, if applicable, changes from the method used in prior periods are appropriate (Ref: par. A95 and .A97)</li> <li>b. Whether judgments made in selecting the method give rise to indicators of possible management bias (Ref: par. .A96)</li> <li>c. Whether the calculations are applied in accordance with the method and are mathematically accurate</li> <li>d. When management's application of the method involves complex modeling, whether judgments have been applied consistently,</li> </ul>			No



AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>and whether, when applicable (Ref: par. .A98-.A100)</p> <p>i. the design of the model meets the measurement objective of the applicable financial reporting framework, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances.</p> <p>ii. adjustments to the output of the model are consistent with the measurement objective of the applicable financial reporting framework and are appropriate in the circumstances.</p> <p>e. Whether the integrity of the significant assumptions and the data has been maintained in applying the method (Ref: par. .A101)</p>			
<p><b>.24</b> In applying the requirements of paragraph .21, with respect to data,</p>			No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>the auditor's further audit procedures should address the following:</p> <ul style="list-style-type: none"> <li>a. Whether the data is appropriate in the context of the applicable financial reporting framework and, if applicable, changes from prior periods are appropriate (Ref: par. .A95 and .A106)</li> <li>b. Whether judgments made in selecting the data give rise to indicators of possible management bias (Ref: par. .A96)</li> <li>c. Whether the data is relevant and reliable in the circumstances (Ref: par. .A107)</li> <li>d. Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms (Ref: par. .A108)</li> </ul>			
<p><b>.25</b> In applying the requirements of paragraph .21, the auditor's further audit procedures should address whether, in the context of the</p>			<p>Yes – paragraph 7.4.17</p>

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>applicable financial reporting framework, management has taken appropriate steps to do the following:</p> <ul style="list-style-type: none"> <li>a. Understand estimation uncertainty (Ref: par. .A109)</li> <li>b. Address estimation uncertainty by selecting an appropriate point estimate and by developing related disclosures about estimation uncertainty (Ref: par. .A110-.A114)</li> </ul>			
<p><b>.26</b> When, in the auditor's judgment based on the audit evidence obtained, management has not taken appropriate steps to understand or address estimation uncertainty, the auditor should (Ref: par. .A115-.A117)</p> <ul style="list-style-type: none"> <li>a. request management to perform additional procedures to understand estimation uncertainty or address it by reconsidering the selection of management's point estimate or considering providing additional disclosures relating to the</li> </ul>			<p>Yes – paragraph 7.4.17</p>

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p>estimation uncertainty, and evaluate management's responses in accordance with paragraph .25 of this section.</p> <p>b. to the extent practicable, develop an auditor's point estimate or range in accordance with paragraphs .27-.28 of this section, if the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty.</p> <p>c. evaluate whether a deficiency in internal control exists and, if so, communicate in accordance with section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i>.</p>			<p>No</p> <p>No</p>
<p><b>.27</b> When the auditor develops a point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, including when required by paragraph .26b, the auditor's further audit</p>			<p>No</p>

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
procedures should include procedures to evaluate whether the methods, assumptions, or data used are appropriate in the context of the applicable financial reporting framework. Regardless of whether the auditor uses management's or the auditor's own methods, assumptions, or data, these further audit procedures should be designed and performed to address the matters in paragraphs .22-.24. (Ref: par. .A118-.A123)			
<b>.29</b> In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor should comply with the relevant requirements in section 500 and section 501, <i>Audit Evidence — Specific Considerations for Selected Items</i> .			No
<b>.30</b> When using the work of a management's specialist, the requirements in paragraphs .20-.28 of this section may assist the auditor in evaluating the appropriateness of the specialist's work as audit evidence for a relevant assertion in accordance			No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
with section 501. In evaluating the work of the management's specialist, the nature, timing, and extent of the further audit procedures are affected by the auditor's evaluation of the specialist's competence, capabilities, and objectivity; the auditor's understanding of the nature of the work performed by the specialist; and the auditor's familiarity with the specialist's field of expertise. (Ref: par. .A126-.A132)			
<b>.31</b> The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the relevant assertion level for disclosures related to an accounting estimate, including those procedures related to estimation uncertainty addressed in paragraphs .25 <i>b</i> and .28 <i>b</i> .			No
<b>.34</b> In making the evaluation required by paragraph .33 <i>c</i> of this section, the auditor should take into account all relevant audit evidence obtained, whether corroborative or contradictory. If the auditor is unable to obtain sufficient			No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
appropriate audit evidence, the auditor should evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with section 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i> .			
<b>.35</b> The auditor should determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated. Section 450 provides guidance on how the auditor may distinguish misstatements (whether factual, judgmental, or projected) for the auditor's evaluation of the effect of uncorrected misstatements on the financial statements. (Ref: par. .A12-.A13 and .A139-.A145)			Yes – paragraph 8.5.2(b)
<b>.36</b> In relation to accounting estimates, the auditor should evaluate whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole.			No

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
<p><b>.37</b> In applying section 260, <i>The Auditor's Communication With Those Charged With Governance</i>, and section 265, the auditor is required to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's significant accounting practices and significant deficiencies and material weaknesses in internal control identified during the audit, respectively. In doing so, the auditor should consider the matters, if any, to communicate regarding accounting estimates and take into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty or the effects of complexity, subjectivity, or other inherent risk factors in making accounting estimates and related disclosures. In addition, in certain circumstances, the auditor is required by law or regulation to communicate about certain matters with other relevant parties, such as regulators. (Ref: par. .A146-.A147)</p>			<p>Yes – paragraph 7.6.3</p>
<p><b>.38</b> The auditor should include the following in the audit</p>			



AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
documentation: (Ref: par. A148- .A151)			
a. Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates			Yes – paragraph 6.8.1(f)
b. The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the relevant assertion level, taking into account the reasons given to the assessment of those risks			Yes – paragraph 6.8.1(f)
c. The auditor's responses when management has not taken appropriate steps to understand and address estimation uncertainty			No
d. Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, as required by paragraph .32			Yes – paragraph 6.8.1(f)

AU-C section 540 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity?	In proposed ISA for LCEs?
e. Significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated			No

**Audits of LCEs Benchmarking Working Group**

**AU-C section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern**

<b>AU-C section 570 Requirement Not Included in German, Nordic, or French Standard</b>	<b>Comments</b>	<b>Scaling Opportunity Related to US GAAS?</b>	<b>In proposed ISA for LCEs?</b>
<p>.17 When management's plans include financial support by third parties or the entity's owner-manager (hereinafter referred to as "supporting parties") and such support is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should obtain sufficient appropriate audit evidence about the following:</p> <ul style="list-style-type: none"> <li>a. The intent of such supporting parties to provide the necessary financial support, including written evidence of such intent, and (Ref: par. .A32-.A37)</li> <li>b. The ability of such supporting parties to provide the necessary financial support (Ref: par. .A24, .A38)</li> </ul>		No	No

AU-C section 570 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
<p>The failure to obtain the written evidence required by item (a) constitutes a lack of sufficient appropriate audit evidence regarding the intent of the supporting parties to provide financial support. Therefore, the auditor should conclude that management's plans are insufficient to alleviate the determination that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. (Ref: par. .A32-.A34)</p>			
<p><b>.25</b> The description in the "Going Concern" section about the entity's ability to continue as a going concern for a reasonable period of time should use terms consistent with those included in the applicable financial reporting framework. The auditor should not use conditional language concerning the existence of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.</p>		No	No
<p><b>.29</b> If substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time existed at the date of</p>		No	No

AU-C section 570 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
prior period financial statements that are presented on a comparative basis and that doubt has been removed in the current period, the going concern section included in the auditor's report on the financial statements of the prior period should not be repeated. (Ref: par. .A60-.A61)			
<p><b>.30</b> Management may request that the auditor reissue an auditor's report and eliminate a "Going Concern" section contained therein. Although an auditor has no obligation to reissue the report, if the auditor decides to reissue the report, the auditor should reassess the going concern status of the entity by doing the following:</p> <ul style="list-style-type: none"> <li>a. Performing audit procedures related to the events or transactions that prompted the request to reissue the report without the "Going Concern" section</li> <li>b. Performing the procedures listed in section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>, at or near the date of reissuance, including</li> </ul>		No	No

AU-C section 570 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
<p>procedures to evaluate the adequacy of the proposed disclosures regarding management's plans to mitigate the conditions or events that raised substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time</p> <p>c. Considering the matters described in paragraphs .16-.18 of this section based on the conditions or circumstances at the date of reissuance</p> <p>d. Considering the implications for the auditor's report in accordance with section 560 (Ref: par. .A62-.A63)</p>			
<p><b>.31</b> If there is significant delay in the expected issuance of the financial statements by management or those charged with governance, the auditor should inquire about the reasons for the delay. If the auditor believes that the delay could be related to the evaluation of whether there is substantial doubt about the entity's ability to continue as a going concern, the auditor should perform</p>		No	Yes – paragraph 7.4.6

AU-C section 570 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
<p>additional audit procedures as necessary, as described in paragraph .16, as well as consider the effect on the auditor's conclusion regarding the existence of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, as described in paragraph .21.</p>			
<p><b>.32</b> If conditions or events are identified that, when considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time before consideration of management's plans, the auditor should document the following: (Ref: par. .A63)</p> <ul style="list-style-type: none"> <li><i>a.</i> The conditions or events that led the auditor to believe that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.</li> <li><i>b.</i> The elements of management's plans that the auditor considered to be particularly significant to overcoming the conditions or events, considered in the aggregate, that raise</li> </ul>		No	No

AU-C section 570 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
<p>substantial doubt about the entity's ability to continue as a going concern, if applicable.</p> <p>c. The audit procedures performed to evaluate the significant elements of management's plans and evidence obtained, if applicable.</p> <p>d. The auditor's conclusion regarding whether substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains or is alleviated. If substantial doubt remains, the auditor should also document the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures. If substantial doubt is alleviated, the auditor should also document the auditor's conclusion regarding the need for, and, if applicable, the adequacy of, disclosure of the principal conditions or events that initially caused the auditor to</p>			



AU-C section 570 Requirement Not Included in German, Nordic, or French Standard	Comments	Scaling Opportunity Related to US GAAS?	In proposed ISA for LCEs?
<p>believe there was substantial doubt and management's plans that alleviated the substantial doubt.</p> <p>e. The auditor's conclusion with respect to the effects on the auditor's report.</p>			

## **Fraud Cover Letter and Discussion Memorandum**

### **I. Objective of Agenda Item**

To provide the ASB with an update about the fraud project and obtain direction from the ASB relating to certain matters.

### **II. Members of ASB Fraud Task Force**

The ASB Fraud Task Force members include:

- Tania Sergott, *Chair*, Deloitte & Touche LLP
- Maxine Bardwell, Washington Suburban Sanitary Commission
- Patricia Bottomly, BDO LLP
- Heather Funsch, TIC
- Diane Hardesty, Ernst & Young LLP
- Robert Harris, Rehmann Robson
- Kathy Healy, PwC LLP
- Greg Jenkins, Auburn University
- Jeff Rapaglia, Forvis, LLP
- Barbara Andrews, AICPA Director Forensics

Linda Delahanty serves as AICPA staff on the fraud task force.

### **III. Agenda Items Presented**

- Item 9 — Fraud Cover Letter and Discussion Memorandum
- Item 9A — Fraud Project Update (Power Point slides)

Ms. Sergott will begin this agenda topic by using the Power Point slides in Agenda Item 9A to provide an update on the IAASB project and then move to the ASB project - describing the ASB project plan,<sup>1</sup> ASB timeline, ASB Fraud Task Force activities: to-date as well as those planned for the summer and the remainder of 2023.

Ms. Sergott will then use this Agenda Item 9 for discussion purposes and to gather feedback from ASB members on initial TF thoughts related to select Key Takeaways identified from the research synthesis project. ASB members are asked to read this Agenda Item 9 in advance of the ASB meeting.

### **IV. Fraud Task Force Activities and Key Takeaways from the Research Synthesis Project**

#### ***Background***

In March 2022, the ASB began conducting outreach and research related to fraud and going concern, including transparency in the auditor's report. As part of that project, the ASB undertook a research synthesis project, under the leadership of Greg Jenkins, ASB member. This project looked at academic studies between 2017-2022. The focus was to learn about the latest academic findings on the identification,

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<sup>1</sup> The Fraud project plan is available to be viewed in "Resources" in OnBoard under "ASB Project Plans."

assessment, and response to fraud risks. The results from the synthesis project were shared with the ASB at the October 2022 ASB meeting (see agenda item 9B ([click here](#)) from the October 2022 ASB meeting materials). The Appendix to this discussion memorandum contains a summary of all the Key Takeaways from the research synthesis project.

### Recent Fraud Task Force Activities

The Fraud TF met (via Zoom) on March 28, 2023, to discuss Key Takeaways from the research synthesis project and consider whether there were any standard setting actions to take. In particular, the TF focused on five Key Takeaways as identified by Greg Jenkins as areas where there might be practical and implementable guidance that the ASB could develop. The following table summarizes the TF discussions and proposed action steps.

(Note: The numbering of the key takeaways in the first column corresponds with the summary in the Appendix to this discussion memorandum).

Key Takeaways	Fraud Task Force Discussion
<b>Identification of Fraud Risks</b> <b>A1. The expression of audit partner leadership, professional skepticism, and viewpoints (i.e., tone from the top) can impact the sharing of information and the identification of fraud risk factors during fraud brainstorming sessions.</b>	<p>The Fraud TF discussed the importance of the engagement partner's involvement in the fraud brainstorming session and whether there is a need to establish a better connection between the fraud brainstorming session in AU-C 240, <i>Consideration of Fraud in a Financial Statement Audit</i> and the requirements in AU-C 220, <i>Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i> (SAS 146).</p> <p>For example, the concepts discussed in pars. .13-.14 of AU-C 220 are equally important as they relate to fraud. AU-C 240 could expand on the concepts in AU-C 220 and provide more granularity as it relates to fraud.</p> <p>AU-C 220 discusses leadership responsibilities for managing and achieving quality on audits. Paragraph .13 of AU-C 220 requires <b><i>the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members</i></b>. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.</p> <p>Paragraph .14 of AU-C sec. 220 states that in creating the environment described in paragraph .13, the engagement partner should take responsibility for clear, consistent, and effective actions being taken that reflect the firm's commitment to quality and that establish and communicate the expected behavior of engagement team members, including emphasizing the following:</p> <ol style="list-style-type: none"> <li>That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level</li> <li>The importance of professional ethics, values, and attitudes to the members of the engagement team</li> <li><b><i>The importance of open and robust communication within the engagement team and supporting the ability of engagement team members to raise concerns without fear of reprisal</i></b></li> <li><b><i>The importance of each engagement team member maintaining professional skepticism throughout the audit engagement</i></b></li> </ol>

Key Takeaways	Fraud Task Force Discussion
	<p><u><i>Fraud Task Force Proposed Action:</i></u></p> <p>The Fraud TF plans to consider the interplay between AU-C 240 and AU-C 220 (SAS No. 146) as it considers changes to AU-C 240, and possibly expanding upon concepts described in AU-C 220 and/or linking to AU-C 220 (possibly including some “In applying AU-C 220...” content).</p>
<p><b>Identification of Fraud Risks</b></p> <p><b>A3.</b> The trait skepticism of individual auditors, including their self-esteem, autonomy, or likelihood of questioning inconsistencies, as well as the overall prevalence of high or low levels of skepticism on an audit team, can influence the team’s dynamics and the identification of fraud risk factors.</p>	<p><u><i>Fraud Task Force Proposed Action:</i></u></p> <p>The Fraud TF again discussed creating a better connection between AU-C 240 and AU-C 220, particularly as it relates to par .14c of AU-C 220 (see Key Takeaway A1).</p>
<p><b>Fraud Risk Assessment</b></p> <p><b>B1.</b> When performing preliminary analytical procedures related to fraud risk assessment, generating more explanations for unusual fluctuations can be counterproductive.</p>	<p><u><i>Fraud Task Force Proposed Action:</i></u></p> <p>The Fraud TF believes that this type of content (related to anchoring bias by the auditor such that an auditor anchors on management’s potentially deceptive explanation for the unusual fluctuation) might be better suited as training material related to professional judgment and therefore does not anticipate proposing changes to AU-C 240.</p>
<p><b>Fraud Risk Assessment</b></p> <p><b>B5.</b> When auditors consult with forensic specialists that possess a greater understanding of the client’s business and engagement objectives, the audit team makes better risk assessments.</p>	<p><u><i>Fraud Task Force Proposed Action:</i></u></p> <p>The Fraud TF is considering referencing from AU-C 240 to the “use of specialists” and also linking to AU-C 220 related to “impediments to exercising professional skepticism” (e.g., auditor bias, authenticity of documentation).</p>
<p><b>Response to Fraud Risk</b></p> <p><b>C1.</b> Advising other auditors on the team and engaging forensic specialists on the team improves auditors’ response to the risk of fraud, and capitalizing on the use of teammates (i.e., using two auditors instead of just one in client inquiries about fraud) reduces clients’ propensity to be deceptive.</p>	<p><u><i>Fraud Task Force Proposed Action:</i></u></p> <p>The Fraud TF believes this type of content might be better suited as educational material – as best practices for conducting fraud inquiries and designing responses, as well as a reminder about maintaining professional skepticism throughout the audit.</p>

## V. Action Requested of the ASB

The ASB is asked for their thoughts about:

- The Fraud TF plans to consider the interplay between AU-C 220 (SAS No. 146) and AU-C 240 as it considers changes to AU-C 240, and possibly expanding upon concepts described in AU-C 220 and/or linking to AU-C 220 (possibly including some “In applying AU-C 220...” content)
- Feedback on the proposed actions to the Key Takeaways noted above
- Whether there may be proposed actions related to any of the Key Takeaways not already discussed by the Fraud TF (see Appendix below)

## Appendix A – Key Takeaways from “Summary of Academic Research on Identification, Assessment, and Response to Fraud Risks”

[Blue font denotes the key-takeaways that were discussed by the Fraud Task Force on March 28, 2023 for possible changes to AU-C section 240.]

A. Identification of Fraud Risks	B. Fraud Risk Assessment	C. Response to Fraud Risk
A1. The expression of audit partner leadership, professional skepticism, and viewpoints (i.e., tone from the top) can impact the sharing of information and the identification of fraud risk factors during fraud brainstorming sessions.	B1. When performing preliminary analytical procedures related to fraud risk assessment, generating more explanations for unusual fluctuations can be counterproductive.	C1. Advising other auditors on the team, and engaging forensic specialists on the team, improves auditors' response to the risk of fraud and capitalizing on the use of teammates (i.e., using two auditors instead of just one in client inquiries about fraud) reduces clients' propensity to be deceptive.
A2. Before introducing technology into the fraud brainstorming sessions, there should be a careful consideration of any unintended effects (e.g., a reduction in creative thinking).	B2. Of all the benchmarks suggested by auditing standards, fluctuations away from industry averages have historically been the best indicator of fraud.	C2. Wise-thinking disposition (i.e., a balanced view of evidence) and trait skepticism both contribute to auditors' effective linking of fraud risk and audit responses.
A3. The trait skepticism of individual auditors, including their self-esteem, autonomy, or likelihood of questioning inconsistencies, as well as the overall prevalence of high or low levels of skepticism on an audit team, can influence the team's dynamics and the identification of fraud risk factors.	B3. Audit committee members with personal connections to the CEO are less vigilant when assessing fraud risk and management integrity while audit committee members with professional ties to other independent directors, audit committee members with experience as controllers, and audit committees with female members are more vigilant monitors.	C3. Empowering auditors, where auditors feel like they can overcome constraints and feel supported to navigate their own work, helps improve auditors' effective response to evidence indicative of fraud without making them inefficient when fraud is not present.
A4. When performing analytical procedures at the end of an audit, it is important that the auditor is motivated to identify any remaining unidentified fraud risk factors and not complete the procedures with a “check the box” mentality.	B4. Auditors with greater industry expertise and tenure and audit committee chairs with greater tenure are less likely to be associated with companies that exhibit large inconsistencies between their reported revenue growth and related nonfinancial measures (i.e., lower fraud risk).	C4. While auditors receiving audit firm communication that resembles practice fail to detect a seeded fraud, when innovative communication that contains game-like elements is provided, auditors' responses are effective at addressing heightened fraud risk.
A5. Fraud identification in client communications might be enhanced using several mechanisms, including cognitive dissonance cue training, reminding auditees of whistleblower protections, and performing fraud interviews with two auditors.	B5. When auditors consult with forensic specialists' that possess a greater understanding of the client's business and engagement objectives, the audit team makes better risk assessments.	
A6. Reduced labor investments and heightened equity incentives for executives may indicate a heightened risk for fraud.	B6. Involving forensic specialists early in an audit engagement leads to improved teamwork and risk responsiveness.	
A7. Innovative machine learning tools, such as applying archivally-developed fraud prediction and applying 10-K linguistic analyses, may aid auditors in fraud identification.	B7. Decomposing fraud risk assessments into separate assessments of the likelihood and magnitude of risk leads to less effective risk assessments than taking a holistic approach.	
	B8. Given the choice, managers choose to commit fraud by omitting a transaction as opposed to falsifying a transaction, which is important because auditors judge a misstatement as less likely to be intentional and are less likely to follow up (e.g., gather additional evidence) when a manager omits a transaction versus falsifying a transaction.	
	B9. Auditors interpret verbal and nonverbal expressions of high CFO narcissism as indicative of increased fraud risk. Although, verbal cues of narcissism have greater influence on auditors than nonverbal cues.	



# Fraud Project Update

Tania Sergott, ASB Task Force Chair

*ASB Meeting - May 16-18, 2023*

# ASB Fraud Task Force Members

- Tania Sergott (*chair*)
  - Maxene Bardwell
  - Patricia Bottomly
  - Heather Funsch (TIC member)
  - Diane Hardesty
  - Robert Harris
  - Kathleen Healy
  - Greg Jenkins
  - Jeffrey Rapaglia
  - Barbara Andrews, AICPA Director of Forensic, Technology & Management Consulting
  - Linda Delahanty, AICPA Senior Manager (staff of project)
-



# IAASB Fraud Project Update



# Key Decisions From IAASB Meetings

Topic	Key Decisions December 2022	Key Decisions September 2022	Key Decisions June 2022	Key Decisions March 2022
<b>Identifying and assessing ROMMs due to fraud (connection to ISA 315R)</b>		The Board discussed, and was supportive of, the Fraud Task Force's drafting with respect to the sections in proposed ISA 240 that refer to, or expand on, ISA 315R.	<ul style="list-style-type: none"> <li>Mixed views on how to incorporate recent changes in ISA 315R.</li> <li>Emphasized that the proposed enhancements in proposed ISA 240R should clarify that the risk assessment procedures performed to identify and assess the ROMM due to fraud are intended to expand upon, and should not be duplicative of, what is already required in ISA 315R.</li> </ul>	<ul style="list-style-type: none"> <li>Broadly agreed with the Fraud TF's proposals on proposed changes in ISA 240 addressing the identification and assessment of the risks of material misstatement due to fraud and communication with those charged with governance about fraud-related matters.</li> </ul>
<b>Inherent limitations</b>			<ul style="list-style-type: none"> <li>Broadly supported the changes in proposed ISA 240 to emphasize the auditor's responsibilities relating to fraud in an audit of financial statements and reduce the ambiguity between the inherent limitations of an audit and the auditor's responsibilities for fraud.</li> </ul>	

# Key Decisions From IAASB Meetings

Topic	Key Decisions December 2022	Key Decisions September 2022	Key Decisions June 2022	Key Decisions March 2022
Communication with those charged with governance			<ul style="list-style-type: none"> <li>The Board supported the proposed changes for enhancing two-way communications with those charged with governance, including emphasizing the ongoing nature of these communications throughout the audit.</li> </ul>	
Other Areas			<ul style="list-style-type: none"> <li>Other areas that were discussed, and for which the Fraud TF received broad directional support, encompassed proposed changes to                             <ul style="list-style-type: none"> <li>address specialized skills</li> <li>the presumption of fraud risk in revenue recognition</li> <li>journal entries.</li> </ul> </li> </ul>	

# Key Decisions From IAASB Meetings

Topic	Key Decisions December 2022	Key Decisions September 2022	Key Decisions June 2022	Key Decisions March 2022
<b>Transparency in the auditor's report</b>	<ul style="list-style-type: none"> <li>• Use a filter to communicate ROMMs due to fraud similar to the KAM filter</li> <li>• Include communication of fraud-related KAMs in the KAM section (applicable to listed entities only)</li> <li>• NOT require communication about identified SDs</li> </ul>	<p>The Board generally agreed to have more transparency about fraud in the auditor's report.</p> <ul style="list-style-type: none"> <li>• Agreed that the auditor's communications on fraud should be included in a separate section in the auditor's report.</li> <li>• Generally agreed that the auditor's responsibilities as they relate to fraud in the audit of the financial statements should be enhanced in the auditor's report.</li> <li>• Had mixed views on whether the identified and assessed fraud risks and the auditor's response to the assessed risks should be communicated in the auditor's report.</li> <li>• Asked the Fraud TF to explore a mechanism similar to KAMs and including a 'filter' to only communicate the most significant fraud risks.</li> <li>• Had mixed views on including the identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements in the auditor's report.</li> <li>• asked the Fraud Task Force to further explore this communication by taking into account the views of users of the financial statements and the concerns the Board raised.</li> <li>• Agreed that the proposed changes to the auditor's report should only apply to listed entities or Public Interest Entities.</li> </ul>		<ul style="list-style-type: none"> <li>• Discussed different alternatives on the way forward for transparency in reporting on fraud and agreed that all alternatives presented should be included in the planned outreach with users of financial statements.</li> </ul>

# IAASB Project Update

- IAASB to discuss a substantially complete draft ISA at the June 2023 meeting
  - Plan to:
    - Vote for exposure in December 2023
    - End comment period in May 2024
    - Vote as final in March 2025
  - Based on CAG Meeting materials from March 2023, the proposed ISA 240 will have:
    - New requirement to obtain audit evidence about the completeness of the population of all journal entries
    - Enhanced requirement to test journal entries throughout the period
    - New documentation requirements on the fraud lens applied in ISA 315 procedures and related to identified/suspected fraud
    - Enhanced documentation requirements on fraud risk factors identified, sig professional judgments made and conclusions reached, D&I of controls that prevent or detect fraud, communication of fraud matters to mgmt. and TCWG and how they responded to the matters, rational for sig judgments made related to sig risks due to fraud
    - New requirements when fraud or suspected fraud is identified – to determine if there is a material misstatement due to fraud and how to respond if there is one
    - Transparency requirements to apply a fraud lens to ISA 701 KAM requirements, and include a statement in the report if a Fraud KAM is not identified
-



# ASB Fraud Project Update

# ASB Fraud Project

- ASB Project Plan finalized at the April 3, 2023, AITF meeting
  - Objective – to determine whether AU-C 240 should be revised
    - Consider ASB outreach and research
    - Consider other standard setter activities (IAASB and PCAOB)
  - Timing to run as close as possible to IAASB project to facilitate input to IAASB standard
-

# Fraud Task Force Activities

- Fraud TF met March 28, 2023
    - Discussed possible changes to AU-C 240 application material relating to certain of the Key Takeaways from fraud research synthesis project
    - Discussed March 2023 CAG materials which highlighted proposed new/enhanced requirements
  - Fraud TF will continue to discuss the Key Takeaways and consider them as the project develops
  - Fraud TF has meetings set for the rest of 2023 and will begin a draft standard after the June IAASB meeting
-

# Fraud – Projected Timetable

Key: Info = Information gathering  
ED = Exposure draft

CL = Comment letters  
Final = Final standard/guidance

DD = Discussion draft  
TBD = To be determined

DI = Discuss issues

	1 <sup>st</sup> Quarter 2023	2 <sup>nd</sup> Quarter 2023	3 <sup>rd</sup> Quarter 2023	4 <sup>th</sup> Quarter 2023	1 <sup>st</sup> Quarter 2024	2 <sup>nd</sup> Quarter 2024	3 <sup>rd</sup> Quarter 2024	4 <sup>th</sup> Quarter 2024	1 <sup>st</sup> Quarter 2025	2 <sup>nd</sup> Quarter 2025
	Jan ASB	May ASB		Oct ASB	Jan ASB	May ASB		Oct ASB	Jan ASB	May ASB
	Mar IASTF	Jun IASTF	Sep IASTF	Dec IASTF	Mar IASTF	Jun IASTF	Sep IASTF	Dec IASTF	Mar IASTF	Jun IASTF
ASB Expected Timing	Info	Project Plan  DI	DI	DD  DD	DD  DD	ED Vote May 2024	CL due Sept 2024	CL	CL/DD	Final Vote May 2025
IAASB Expected Timing				ED (Dec. 2023)		CL due (May 2024)			Final (Mar. 2025)	



# ASB Fraud Next Steps

## Upcoming ASB Task Force Activities

- Continue to provide feedback to the IAASB through IASTF/ASB meetings
- Begin discussing changes to AU-C 240, based on ASB research and using June 2023 proposed ISA 240 as a base
- Continue to monitor the PCAOB fraud project
- ASB Fraud TF meetings scheduled for 2023:
  - June 13; Sep. 12; Dec. 4 (discuss IAASB materials and discuss issues)
  - June 29; July 13 & 27; Aug 10 & 24; Sep. 8 (develop ASB materials)

## What to Expect in 2023

- The ASB will be asked to discuss possible changes to AU-C 240 and other related AU-C sections.
- Comment Letter to IAASB expected 2<sup>nd</sup> Q 2024
- The ASB will move toward voting
  - Exposure draft in May 2024
  - Final standard in May 2025

**ASB Technology Working Group - Discussion Memorandum****I. Discussion Objectives**

The ASB's Technology Working Group (TWG) seeks to

- a. Update the ASB on recent TWG activities and accomplishments, and
- b. Facilitate a strategic re-review of our near and longer-term work plan and obtain direction from the ASB regarding priority activities and projects to pursue.

**II. Technology Working Group**

- Samantha Bowling, *Chair*, Garbelman Winslow CPAs
- Brad Ames, Supermicro
- Daniel Balla, Crowe LLP
- Danielle Supkis Cheek, MindBridge
- Margaret Christ, University of Georgia
- Jeff Cook, Fortreum
- Erin Mackler, AICPA - Assurance & Advisory Innovation
- Bob Harris, Rehmann Robson
- Katheen K. Healy, PwC LLP
- Chris Rogers, Infragistics
- Sara Watson, FORVIS, LLP

Brian Wilson serves as the Audit and Attest staff lead.

**III. Overview of Recent TWG Accomplishments and Activities (since January 2023)**

- a. Technology Resource
  1. Submitted for AICPA editorial/graphics review and publication the following non-authoritative resource: "The Use of Technology in an Audit of Financial Statements Resource" (the Technology Resource).
  2. The Technology Resource is designed to educate and help auditors focus on the use of technology in the audit of financial statements.
  3. The public release of the Technology Resource is targeted between late June 2023 or early July 2023.
  4. Refer to **Appendix A** for additional discussion.
- b. Technology Impediments Survey Follow-on Activities (JoA series)
  1. In coordination with ASB member Greg Jenkins, members of the TWG met in Q1 2023 to brainstorm ideas on how to further share the important findings learned by ASB's Q4 survey and to consider how to frame those findings in timely publications that can further assist auditors on the use of technology and overcome barriers to perceived or actual barriers to use.
  2. The TWG's proposed approach is to develop a series of articles to be released through the Journal of Accountancy focused on closely shared characteristics of technology as noted in the survey findings.

c. IAASB-related activities

1. Contributed to the ASB's response<sup>1</sup> to the IAASB strategy and work plan by offering the IAASB a strategic purpose and framework for technology and offering recommendations on technology projects, including projects where the ASB (TWG) could partner with the IAASB to address stakeholder needs.
2. Liaison meeting with IAASB staff in April 2023 to report findings from the Q4 2023 Tech survey. One agreed upon next steps is to schedule recurring ASB TWG and IAASB Technology Consultation Group Meetings.
3. Danielle Cheek participated in the IAASB staff led "thought experiment"<sup>2</sup> workshop on April 13, 2023.

d. Promoting technology adoption for small to medium size firms (e.g., articles, podcasts, presentations)

- a. TWG members Sara Watson and Danielle Cheek along with Brian Wilson will be presenting at two technology-related sessions at AICPA Engage (June 6-7, 2023):
  - i. Session 1 Objective: Provide participants a deeper dive into the results of the survey, including the benefits auditors are achieving when using technology as well as why some auditors shy away. It will also provide a high-level understanding of some prominent areas in the audit where technology can provide efficiencies and stronger evidence during the audit process.
  - ii. Session 2 Objective: Building on Session 1, Session 2 is a deeper look at how auditors can increase their use of technology and analytics to plan and perform audits. This session will offer practical applications and examples of how technology and analytics can enhance today's audit.
  - iii. Refer to Session 1 and Session 2 for additional information.
- b. ASB member Samantha Bowling to present at Salisbury University on June 12, 2023 and will discuss, in part, considerations about technology and the financial statement audit.
- c. ASB members Samantha Bowling and Andrew Prather are presenting at the AICPA not-for-profit conference on June 20 and 26th, 2023 and will speak, in part, about technology use in the performance of risk assessment work.

#### IV. Strategic re-review of the near and longer-term work plan of the TWG

Background:

To inform the ASB's discussion in May 2023, relevant excerpts of the ASB's scope of work as a standard setter, the ASB's strategic objectives pertaining to technology, the objectives of the TWG, and the work plan established in July 2022 are included in **Appendix B**.

Consistent with the TWG's overall objectives, the focus of the TWG's work plan going forward is expected to narrow and focus on matters directed by the ASB, considering performance of resources developed to date.

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<sup>1</sup> Refer to the technology-related discussion items on pages 3, 5, 7-9 in the [ASB's response](#) to the IAASB Strategy and Work Plan.

<sup>2</sup> The IAASB launched in Q1 2023 a series of [thought experiments](#) designed to enable a better understanding of the impact of different [technology](#) on auditing standards.

What's new and relevant since July 2022:

1. The results of technology impediment survey may indicate that while changes to the standards isn't needed, there are barriers in practice discouraging or limiting smaller to medium firms from using technology strategically and holistically throughout the financial statement audit.
  - a. Refer to III(b) above the TWG's proposed initial response.
2. The recent addition of new TWG members with broader and different knowledge and technology skills about technology in audit create opportunities to address technology needs in practice.
3. The work of other standard setters (e.g., IAASB) and regulators (e.g., PCAOB) may necessitate the need to advance technology relevance in certain areas of the audit (e.g., journal entry testing, fraud identification)
4. The time and effort of the ASB through the Audit and Attest staff and/or TWG may range between 2 months to 1 year to design, develop, and issue guidance or educational support in the service of support the ASB's strategic objectives (refer to **Appendix B**).
5. Technology has been chosen as an area the AICPA Enhancing Audit Quality initiative will focus on in 2024 (based on feedback from the chairs of the AICPA senior technical committees).

Drivers impacting the work going forward:

The Audit and Attest staff and the TWG have identified certain drivers to consider in determining the focus of the work going forward:

1. Deciding prioritization/staging based on resources and time commitment required:
  - a. Additional modules for the Technology Resource to address technology needs in other areas of the audit (e.g., substantive testing, journal entry testing, auditor's consideration of fraud, quality management, technology selection and change management).
  - b. J of A series (or other actions) to help practitioners understand how to use technology effectively and efficiently.
  - c. Potential TQAs to address specific questions in practice (questions to be identified).
  - d. Resolution of various audit data analytic items (see the slide above).
  - e. Updating the Audit Data Analytics practice aid (to conform with SAS 145 and potentially build out the examples).
2. The ASB offered its support to the IAASB to participate in actions that produce technology resources that support practitioners and educate stakeholders on globally relevant areas.
3. Additional research could identify additional needs for guidance regarding technology.
4. Deciding whether to move forward with a technology-related relationship mapping exercise. For example, co-developing projects and partnerships with firms and methodology providers may indicate unidentified standard/guidance needs or yield synergies.
5. Determining/planning collaboration with the AICPA Enhancing Audit Quality initiative on technology.

## Questions for the ASB

The ASB is asked to provide feedback on the following topics to assist the TWG:

1. Are there pressing issues related to the use of technology in the audit that the TWG should focus on?
2. Considering Question 1, are there particular issues in practice that can be resolved through “faster track” options such as TQAs and/or education through JoA articles?
3. Which action would the ASB prefer the TWG to prioritize?
  - a. Additional modules for the Technology Resource (first module relates to risk assessment)
    - i. If yes, which area of the audit?
      1. Fraud
      2. Substantive testing
      3. Journal entry testing
      4. Others?
  - b. J of A articles to educate practitioners on the use of technology
  - c. Updating the ADA guide
  - d. Something else?

## VI. Upcoming Expected Task Force Activities

Pending the feedback obtained from the ASB on the discussion matters herein, the staff recommends the following:

	2 <sup>nd</sup> Quarter 2023	3 <sup>rd</sup> Quarter 2023	4 <sup>th</sup> Quarter 2023/1 <sup>st</sup> Quarter 2024
<b>Expected Activities</b>	<ul style="list-style-type: none"> <li>Focus on J of A articles and/or TQAs addressing issues identified from Technology Survey (or others determined to be high priority)</li> <li>Work within AICPA to assess potential timeline for updating the ADA guide and resources available to do so</li> </ul>	<ul style="list-style-type: none"> <li>Gather data and feedback on the Technology Resource</li> <li>Decide what topics to address in the next module of the Technology Resource</li> <li>Understand areas of focus for Enhancing Audit Quality Initiative on Technology</li> </ul>	<ul style="list-style-type: none"> <li>Issue next module of the Technology Resource (if based on performance this is determined to be a good use of resources)</li> </ul>

## DRAFT

### Appendix A

**NOTE: the following is *draft* and partial except of the Introduction to the Technology Resource. This is provided for information only and may be subject to change until the final publication.**

Part 1 of the Technology Resource “The Use of Automated Tools and Techniques in the Auditor’s Risk Assessment” has been developed to assist practitioners in considering the use of technology when applying Statement on Auditing Standards (SAS) No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C section 315).<sup>3</sup> SAS No. 145 addresses the auditor’s responsibility to identify and assess the risks of material misstatement in the financial statements. SAS No. 145 is effective for audits of financial statements for periods ending on or after December 15, 2023 and is codified in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

SAS No. 145 was designed to clarify certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality. It includes additional guidance that addresses significant changes in, and the evolution and increasingly complex nature of the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate. Accordingly, SAS No. 145 resulted in modernizing AU-C section 315 in relation to IT considerations, including how the auditor addresses risks arising from an entity’s use of IT.

Part 1 of the resource contains three modules. Additional parts to this document may be added in the future.

#### **Part 1 — The Use of Automated Tools and Techniques in the Auditor’s Risk Assessment**

- *Module 1-A: The Benefits of Leveraging Technology in the Auditor’s Risk Assessment and of Obtaining an Understanding of the Entity’s Use of Technology* is designed to help the auditor understand the benefits of using technology when performing risk assessment procedures in an audit of financial statements. It explains why the auditor’s risk assessment is important, highlights the importance of obtaining an understanding of the entity’s technology maturity, and provides insights into ways in which the auditor may want to use automated tools and techniques when performing risk assessment procedures in an audit of financial statements.

Module 1-A does not include all aspects of AU-C section 315. It is therefore recommended that an auditor have sufficient knowledge of AU-C section 315 when applying the technology concepts contained herein as the auditor performs their risk assessment.

- *Module 1-B: Commonly Used Automated Tools and Techniques in the Auditor’s Risk Assessment.* This helps the auditor understand the commonly used forms of automated tools and techniques and how they may be used when performing risk assessment procedures in an audit of financial statements.
- *Module 1-C: Example of the Use of Technology in Performing Risk Assessment Procedures* is designed to illustrate a traditional risk assessment approach and how that may differ from a technology-enabled risk assessment approach.

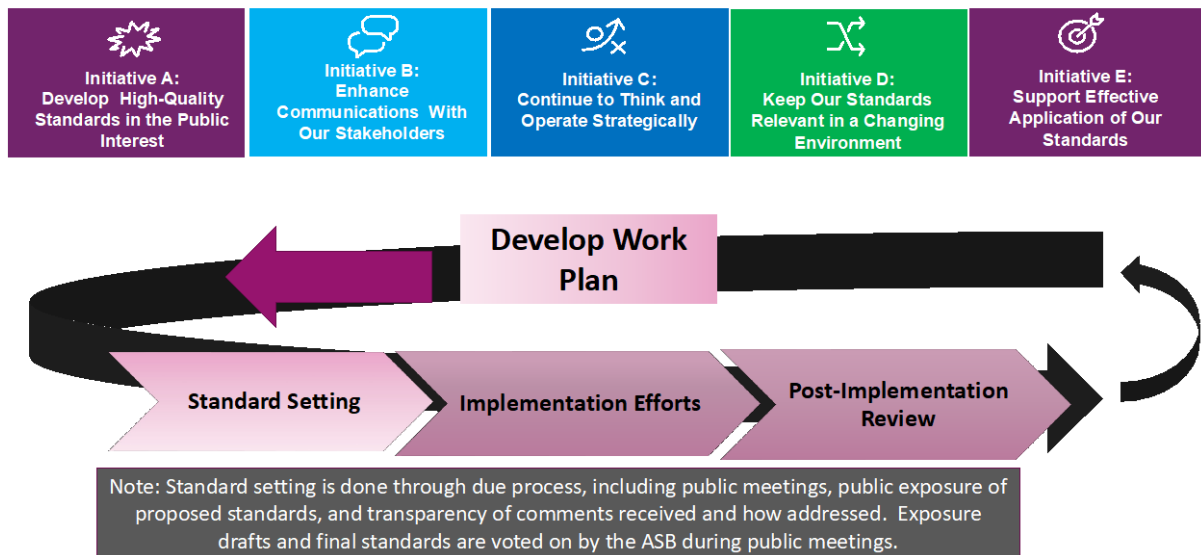
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<sup>3</sup> All AU-C sections can be found in AICPA *Professional Standards*.

## Appendix B

### Overview the ASB's strategic purview:

### ASB Strategic Initiatives:



### What is meant by Technology and the Audit in the ASB's Strategic Plan:

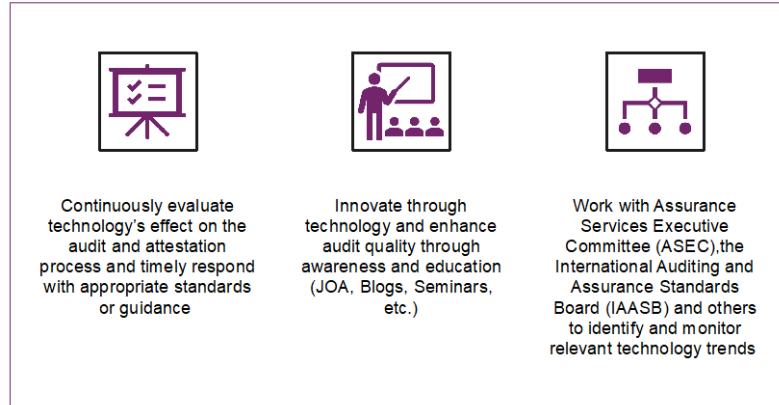
#### What do we mean by Technology and the Audit?

##### From the ASB's Strategic 2021-2025 Strategic Plan

- Advancements in, and use of, technology in the audit
- Rapid developments in technologies are having a profound effect on audit and assurance engagements, including the use of automated tools and techniques and changes in how engagement teams are structured and interact
- The increasing use of new and innovative technologies by companies, and by practitioners in performing engagements, has increased the need for the ASB to monitor the development and use of such technologies, including the shift to remote work, and consider whether our standards remain fit for purpose in supporting their use.
- In addition, new and emerging service offerings by firms create the need for the ASB to evaluate whether appropriate standards and guidance are in place for the acceptance and performance of these services

**The objectives of the TWG as endorsed by the ASB in July 2022:**

## Technology Working Group Objectives



5

The objectives of the TWG, are based on the technology-related initiatives and actions in the ASB's 2021-2025 Strategic plan

The TWG believes that it should be the primary means to educate the ASB and support the ASB's efforts to innovate audit and assurance services through technology

**TWG Workplan discussed at the July 2022 ASB meeting:**

## Proposed Near-Term Resources\*

**Focus: Develop resources to resolve issues in-practice and to promote technology**

< 12 months	> 12 months
<ol style="list-style-type: none"> <li>1. Technology-related risk assessment nonauthoritative resource (in-progress)</li> <li>2. Nonauthoritative guidance clarifying <ul style="list-style-type: none"> <li>• that an audit procedure can be classified into more than one of the categories simultaneously, and/or have more than one purpose, and that a properly designed ADA may simultaneously identify and address a risk of material misstatements. This could be included in an update to the AICPA Non-authoritative Guide to Audit Data Analytics.</li> <li>• that an audit procedure performed at the individual item level could meet the classification of a test of details based on its level of precision, and/or the audit procedure classifications are not an all-inclusive list</li> </ul> </li> <li>3. Nonauthoritative guidance that there is a spectrum of risk to be considered when assessing data reliability and for applying auditor judgment</li> <li>4. Nonauthoritative guidance to publicize the ADA guide and explain some of the key principles set out in SAS 142 (and SAS 145 on risk assessment, SAS 146 and SQMS 1 on technological resources)</li> <li>5. Issue a resource to clarify the issues around inconsistency use and definitions of certain foundational technology/ADA terms</li> </ol>	<ol style="list-style-type: none"> <li>1. If auditor is using AI to support the audit, how to explain the appropriateness of the audit evidence</li> <li>2. If the client is using AI, how to audit the "blackbox" of AI</li> <li>3. Guidance regarding the auditor's responsibilities with respect to the resolution of items with attributes that differ from those expected (i.e., notable items or possible misstatements) when using ADAs</li> <li>4. Create more nonauthoritative examples on using Audit Data Analytics (format and/or location – TBD)</li> </ol>

<sup>10</sup> \*Subject to change pending July 2022 ASB discussion