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At a glance

From the Audit & Attest Standards Team

Amendment to AU-C Section 935, *Compliance Audits*

What happened?

On August 4, 2022, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 148, Amendment to AU-C Section 935.

What has changed?

SAS No. 148 amends AU-C section 935, *Compliance Audits*, to address conforming changes and update the appendix "AU-C Sections That Are Not Applicable to Compliance Audits" (the appendix) to reflect the issuance of the following SASs:

- SAS No. 142, *Audit Evidence* (AU-C section 500)
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C section 315)

No amendment is necessary to AU-C section 935 to reflect the issuance of the following SASs:

- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures* (AU-C section 540)
- SAS No. 144, *Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources*

Revisions arising from SAS No. 142

SAS No. 142 superseded SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, section 500, Audit Evidence (AU-C section 500A), and amended various AU-C sections, including AU-C section 501, *Audit Evidence — Specific Considerations for Selected Items*. The amendments in SAS No. 142 moved what had been paragraph .08 of AU-C section 500A, relating to using the work of a management's specialist, to become paragraph .27 of AU-C section 501, without any substantive changes to that paragraph. This paragraph was applicable to compliance audits when it was in AU-C section 500A, and that applicability didn't change when it was relocated. Accordingly, the appendix in AU-C section 935 is revised to reflect the continued applicability of this paragraph in a compliance audit.

Revisions arising from SAS No. 145

- Updated appendix to include
  - — paragraphs comparable to those in AU-C section 315A that are not applicable to a compliance audit.
  - — paragraphs that address significant risks and classes of transactions, account balances, and disclosures that are not significant but are material, as these concepts are not applicable to compliance audits.
- Added a requirement to AU-C section 935 to address the auditor's responsibility in adapting and applying requirements relating to the control activities component in a compliance audit.
- For ease of use and clarity, added, adapted as necessary, requirements related to identifying and assessing risks of material noncompliance and, consequently, included the SAS No. 145 paragraphs containing those requirements in the appendix as paragraphs that are not applicable when applying AU-C section 315 to a compliance audit. Application material was added to AU-C section 935 that references the 22 relevant application material paragraphs for paragraphs 35 and 37–38 in SAS No. 145.
- Added a requirement relating to documentation of identified and assessed risks of material noncompliance, and consequently included the comparable paragraph from SAS No. 145 in the appendix as a paragraph that is not applicable in a compliance audit.
- Certain other editorial revisions were made for clarity or consistency with other AU-C sections.

Next steps?

The effective date of the amendment to the appendix with regard to AU-C section 501 is aligned with the effective date of SAS No. 142 because, as explained previously, this amendment arises from SAS No. 142. This amendment is not intended to change current practice, as only the placement of the underlying requirement within generally accepted auditing standards (GAAS) changed. All other amendments in this SAS arise from SAS No. 145, and accordingly, their effective date is aligned with the effective date of SAS No.145.

Early implementation of SAS No. 148 is permitted. The ASB recommends that any firm that performs compliance audits implement SAS No. 148 concurrently with its implementation of SAS No. 145. SAS No. 148 is available for auditors to read and consider in order to adequately prepare for implementation and can be viewed on the AICPA's website under recently issued standards.