

SAS No. 134: Changes to the Auditor's Report

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New language and significant changes are coming to the independent auditor's report for private companies effective for financial statements with reporting periods ending after December 15, 2021. In May 2019, the Auditing Standards Board of the AICPA issued Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures of Financial Statements*. The intention of SAS No. 134 is to enhance value, relevance and transparency to what is being communicated in the auditor's report for those charged with the company's governance and management. Some of these changes have already been implemented by the Public Company Accounting Oversight Board (PCAOB) for audits of public companies and the International Auditing and Assurance Standards Board.

What is changing?

- The auditor's opinion paragraph will now be the first introductory paragraph of the report, followed by a "Basis for Opinion" paragraph. Originally, the Basis for Opinion paragraph was only required for reports with modified opinions. Under this new Standard, the Basis of Opinion paragraph will contain a statement explaining the auditor's requirement to be independent of the entity being audited and to meet ethical responsibilities in accordance with the relevant ethical requirements.
- Additional language in the "Management's Responsibilities" paragraph emphasizing management's requirement to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern.
- More expansive language in the "Auditor's Responsibilities" paragraph including clarifying what reasonable assurance is over absolute assurance when providing an opinion on the financial statements. Also, there is enhanced language on the auditor's approach to auditing financial statements including emphasizing professional judgment and skepticism, and concluding on whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern.
- Inclusion of a new paragraph that states the requirement for the auditor to communicate with those charged with governance (TCWG) regarding the scope and timing of the audit, significant audit findings, and certain internal control related matters.
- The inclusion of an optional "Key Audit Matters" paragraph.

What are Key Audit Matters (KAMs)?

SAS No. 134 introduces the concept of Key Audit Matters or KAMs. Reporting of KAMs would occur if the auditor has been specifically engaged by the entity to communicate on KAMs. KAMs represent matters that, in the auditor's professional judgment, were of the most significance in the audit. KAMs are selected from matters communicated with TCWG. Matters that would generally be considered KAMs would typically include significant events or transactions; areas where there is a high degree of management judgment or estimation; and areas where the auditor assesses higher or significant risk of material misstatement.

The additional KAMs paragraph is not intended to be a substitute for "Emphasis of Matters" paragraphs for reporting going concern issues, modified opinions, or required financial statement disclosures. With the exception of the communication being optional, this concept of KAMs is similar to the PCAOB's required disclosure in the independent auditor's report of public companies with the communication of Critical Audit Matters or CAMs.

Any other changes?

In addition to changes to the independent auditor's report, SAS No. 134 will also result in changes in engagement letters and other communications to those charged with governance.

Contact Us

Please reach out to your PKF O'Connor Davies engagement team with any questions or concerns you may have regarding the implementation of this new guidance or contact any of the following:

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