

# Clarity Project: Questions and Answers



In response to frequently asked questions regarding the status and ultimate products of the Clarity Project, below are responses to those questions most commonly asked.

- Q.** What is the [Clarity Project](#)?
- A.** To aid CPAs' understanding of generally accepted auditing standards (GAAS) and to improve compliance with their requirements, the Auditing Standards Board (ASB) in 2004 launched a significant effort to make U.S. GAAS easier to read, understand, and apply. In 2009, the International Auditing and Assurance Standards Board (IAASB) completed a similar project to clarify its International Standards on Auditing (ISAs). The ASB has completed the clarity redrafting of all of its pre-clarity AU sections and, with the exception of eventually converging SAS No. 126 with ISA 570 (as described in the Note in the next Q&A), has also completed converging U.S. GAAS with the ISAs while avoiding unnecessary conflict with Public Company Accounting Oversight Board standards. In 2007, clarity drafting conventions were developed and are being applied to all standards issued by the ASB after January 2008. More information on the Clarity Project is available on the "[Improving the Clarity of Auditing Standards](#)" page on the AICPA's dedicated website.

- Q.** When does the ASB expect to complete the Clarity Project?

- A.** The ASB has completed the clarity redrafting of all but the following AU section:
- [AU section 322](#), *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, whose clarity redraft and revision had been delayed in order to enable the proposed Statement on Auditing Standards (SAS) to align with the IAASB's revisions to the clarified ISA 610, *Using the Work of Internal Auditors*, which was issued in 2008. These revisions have resulted in the July 2010 issuance of proposed ISA 610 (Revised), *Using the Work of Internal Auditors*.

At its December 2011 meeting, the IAASB voted to issue as final the section of proposed ISA 610 (Revised) that relates to using the work of the internal audit function and agreed to defer the issuance of the section of proposed ISA 610 (Revised) that relates to direct assistance, pending a resolution from the International Ethics Standards Board of Accountants (IESBA) on the matter of an external auditor using an internal auditor in a direct assistance capacity. Upon resolution of the matter by the IESBA, it is anticipated that the IAASB will vote to issue ISA 610 (Revised), in its entirety, as a final standard.

This redraft is expected to be issued as a separate SAS in late 2013 or early 2014.

- Q.** How have the clarified SASs been issued?

- A.** To address practice issues, certain clarified SASs were issued in 2009 and 2010 and are effective. These standards are [SAS No. 117](#), which deals with compliance audits, and [SAS Nos. 118](#), [119](#), and [120](#), which deal with supplementary information.

In October 2011, the following three SASs were issued in one publication:

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*
- SAS No. 123, *Omnibus Statement on Auditing Standards—2011*
- SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

In December 2011, SAS No. 125, *Alert That Restricts the Use of the Auditor's Written Communication*, was issued.

In June 2012, SAS No. 126, *The Auditor's Consideration of the Entity's Ability to Continue as a Going Concern* (Redrafted), was issued. **Note:** The ASB moved forward with the clarity redraft of AU section 341, *The Auditor's Consideration of the Entity's Ability to Continue as a Going Concern*, in order to be consistent with the format of the other clarified SASs that were recently issued as SAS Nos. 122–125. However, the ASB has decided to delay convergence with ISA 570, *Going Concern*, pending the FASB's anticipated development of accounting guidance addressing going concern.

In January 2013, SAS No. 127, *Omnibus Statement on Auditing Standards—2013*, was issued.

In February 2014, SAS No. 128, *Using the Work of Internal Auditors*, was issued.

**Q.** What do SAS Nos. 122–128 contain?

**A.** The following describes each SAS:

#### **SAS No. 122**

SAS No. 122 contains the Preface to Codification of Statements on Auditing Standards, Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards, and **39** additional clarified SASs. This statement recodifies and supersedes all outstanding SASs through No. 121 except

- SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries*;
- SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended;
- SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*;
- SAS No. 87, *Restricting the Use of an Auditor's Report*; and
- SAS Nos. 117–120

This statement also withdraws SAS No. 26, *Association With Financial Statements*, as amended.

#### *"AU-C" Sections*

This statement contains "AU-C" section numbers instead of "AU" section numbers. As part of the clarification of the SASs, the AU section numbers as designated by SAS Nos. 1–121 were recodified and "AU-C" was selected as an identifier in order to avoid confusion with references to superseded "AU" sections. Superseded "AU" sections were deleted from AICPA *Professional Standards* in December 2013, by which time substantially all engagements for which the "AU" sections were still effective were expected to be completed.

AU-C section numbers for clarified SASs based on equivalent ISAs are the same as the equivalent ISA numbers. AU-C section numbers for clarified SASs with no equivalent ISAs have been assigned new numbers. The ASB believes that this recodification structure aids firms and practitioners that use both ISAs and generally accepted auditing standards. The exhibit, "List of AU-C Sections Designated by Statement on Auditing Standards No. 122, Statements on Auditing Standards: Clarification and Recodification, Cross Referenced to List of AU Sections in AICPA *Professional Standards*," to this statement contains a complete two-part cross-reference listing of AU-C and AU section numbers as designated by this statement. View a [master table of contents](#) that reflects the new AU-C section number order.

#### *Effective Date*

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012. Refer to individual AU-C sections for specific effective date language.

**Note:** This statement is a stand-alone SAS and is not a codification of all clarified SASs. This statement has been codified in AICPA *Professional Standards*, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [http://www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online\\_Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online_Subscription).

#### **SAS No. 123**

SAS No. 123 contains amendments to

- SAS Nos. 117–118
- SAS No. 122, AU-C sections
  - 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
  - 230, *Audit Documentation*
  - 260, *The Auditor's Communication With Those Charged With Governance*
  - 705, *Modifications to the Opinion in the Independent Auditor's Report*

- 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*

These amendments conform SAS Nos. 117–118 to SAS No. 122 and address other changes necessitated by the Clarity Project.

These amendments, which have been issued in this statement to aid transparency in following the disposition of the amendments proposed in the exposure draft of this SAS, have been codified in AICPA Professional Standards, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [http://www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription).

#### *Effective Date*

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012. Refer to individual amendments for specific effective date language.

#### **SAS No. 124**

SAS No. 124 supersedes the requirements and guidance in SAS No. 51, *Reporting on Financial Statements Prepared for Use in Another Country*, and redrafts that statement to apply the ASB's established clarity drafting conventions. This statement requires the auditor, in instances where a report that is to be used in the United States was prepared in accordance with a financial reporting framework generally accepted in another country, to include an emphasis-of-matter paragraph to highlight the foreign financial reporting framework, but permits the auditor to express an unqualified opinion.

This statement has been codified in AICPA *Professional Standards*, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [http://www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription).

#### *Effective Date*

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012.

#### **SAS No. 125**

SAS No. 125 supersedes the requirements and guidance in SAS No. 87, *Restricting the Use of an Auditor's Report*, and redrafts that statement to apply the ASB's established clarity drafting conventions.

This statement also contains amendments to

- SAS Nos. 117 and 119
- SAS No. 122, AU-C sections
  - 260
  - 265, *Communicating Internal Control Related Matters Identified in an Audit*
  - 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
  - 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*
  - 915
  - 920, *Letters for Underwriters and Certain Other Requesting Parties*

This statement addresses the auditor's responsibility, when required or the auditor decides, to include in the auditor's report or other written communication issued by the auditor in connection with an engagement conducted in accordance with GAAS language that restricts the use of the auditor's written communication. In an auditor's report, such language is included in an other-matter paragraph.

**Note:** This statement is a stand-alone SAS and is not a codification of all clarified SASs. This statement has been codified in AICPA Professional Standards, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [http://www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription).

#### *Effective Date*

This statement is effective for the auditor's written communications related to audits of financial statements for periods ending on or after December 15, 2012. For all other engagements conducted in accordance with GAAS, this SAS is effective for the auditor's written communications issued on or after December 15, 2012.

#### **SAS No. 126**

SAS No. 126 supersedes the requirements and guidance in SAS No. 59, *The Auditor's Consideration of the Entity's Ability to Continue as a Going Concern*, as amended, and redrafts that statement to apply the ASB's established clarity drafting conventions.

The ASB moved forward with the clarity redraft of SAS No. 59, as amended, in order to be consistent with the format of the other clarified SASs that were recently issued as SAS Nos. 122–125. However, the ASB has decided to delay convergence with ISA 570, *Going Concern*, pending the FASB’s anticipated development of accounting guidance addressing going concern.

This statement addresses the auditor’s responsibilities in an audit of financial statements with respect to evaluating whether there is substantial doubt about the entity’s ability to continue as a going concern. This SAS applies to all audits of financial statements regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework.<sup>1</sup> This SAS does not apply to an audit of financial statements based on the assumption of liquidation (for example, when (a) an entity is in the process of liquidation, (b) the owners have decided to commence dissolution or liquidation, or (c) legal proceedings, including bankruptcy, have reached a point at which dissolution or liquidation is probable).<sup>2</sup>

**Note:** This statement is a stand-alone SAS and is not a codification of all clarified SASs. This statement has been codified in AICPA Professional Standards, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription).

#### *Effective Date*

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012.

#### **SAS No. 127**

SAS No. 127 contains amendments to SAS No. 122 section 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors),” and SAS No. 122 section 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks.”

The amendments to AU-C section 600

- permit making reference to the audit of a component auditor in the auditor’s report on the group financial statements when the component’s financial statements are prepared using a different financial reporting framework than that used for the group financial statements, if certain conditions are met.
- add a requirement, when reference is made to a component auditor’s report on financial statements prepared using a different financial reporting framework, for the auditor’s report on the group financial statements to disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component’s financial statements to the financial reporting framework used by the group.
- add application material that addresses making reference when the financial reporting frameworks differ.
- clarify the requirement to preclude making reference to the audit of a component auditor in the auditor’s report on the group financial statements unless the component auditor has performed an audit that meets the relevant requirements of GAAS, and adds additional guidance regarding that determination.
- add a requirement that when the auditor of the group financial statements is making reference to the audit of a component auditor and has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS, the auditor’s report on the group financial statements should indicate the set of auditing standards used by the component auditor and that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS.
- clarify that the group engagement team is required to determine component materiality for those components on which the group engagement team will assume responsibility for the work of a component auditor who performs an audit or a review.

The amendment to AU-C section 800 adds an *other basis of accounting* that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements to the bases of accounting defined as special purpose frameworks.

#### *Effective Date*

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**Note:** This statement is a stand-alone SAS and is not a codification of all clarified SASs. This statement has been codified in AICPA Professional Standards, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription).

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<sup>1</sup> *General purpose and special purpose frameworks* are defined in AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, Professional Standards), and AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, Professional Standards), respectively.

<sup>2</sup> See Interpretation No. 1, “Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting,” of AU-C section 700 (AICPA, Professional Standards, AU-C sec. 9700 par. .01–.05).

## SAS No. 128

SAS No. 128 supersedes the requirements and guidance in SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, and redrafts that statement to apply the ASB's established clarity drafting conventions.

This statement was developed using ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, as a base. Substantive differences in objectives, definitions, or requirements between SAS No. 128 and ISA 610 (Revised 2013) are identified in the exhibit to SAS No. 128.

This statement also contains amendments to

- SAS No. 122 sections
  - 200
  - 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
  - 230
  - 240, *Consideration of Fraud in a Financial Statement Audit*
  - 260
  - 265
  - 300, *Planning an Audit*
  - 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
  - 402, *Audit Considerations Relating to an Entity Using a Service Organization*
  - 500, *Audit Evidence*
  - 550, *Related Parties*
  - 600
- Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control* (Redrafted)

This statement addresses the external auditor's responsibilities if using the work of internal auditors. Using the work of internal auditors includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor.

**Note:** This statement is a stand-alone SAS and is not a codification of all clarified SASs. This statement has been codified in AICPA *Professional Standards*, which contains a complete codification of the Statements on Auditing Standards and is available in the AICPA Store at [www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/NewReleases/PRDOVR~PC-005102/PC-005102.jsp?selectedFormat=Online Subscription).

### *Effective Date*

This statement is effective for audits of financial statements for periods ending on or after December 15, 2014.

**Q.** How can I get more information about the Clarity Project?

**A.** For more information, visit the "[Improving the Clarity of Auditing Standards](#)" page on the AICPA's website for additional resources.

**Q.** How can I get more information about Accounting and Auditing activities?

**A.** For more information, visit the [Financial Reporting Center](#) home page on AICPA's dedicated website.

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