

PCPS Clarified Auditing Standards Snapshot Overview
Statements on Auditing Standards Nos. 122-125: Clarification and Recodification

Note: The following is an excerpt from the preface to the [Clarified Auditing Standards Snapshot Overview](#) included in the [PCPS Clarified Auditing Standards Toolkit](#). This preface is an introduction to the new standards, with a more in-depth discussion of the significant changes available in the complete Toolkit. The Toolkit is available free to members of the [Private Companies Practice Section](#) (PCPS).

Preface:

The [PCPS Clarified Auditing Standards Snapshot Overview](#) is intended to provide insight into the key points of SAS Nos. 122-125, to help you appropriately apply the new standards in your financial statement audits. This document summarizes what's different, gives examples of how the work on your desk could change and provides specific considerations to keep in mind – both from the perspective of the auditor and the client.

Why are the new SASs being issued?

SAS Nos. 122-125 resulted from the Auditing Standards Board's (ASB) "Clarity Project." In redrafting all of the auditing sections in the Codification of Statements on Auditing Standards, the Clarity Project had two primary objectives:

1. To make the standards easier to read, understand and apply
2. To converge the standards with those of the International Auditing and Assurance Standards Board (IAASB).

Each standard is presented with the following format:

- Introduction
- Objective
- Definitions (if applicable)
- Requirements
- Application and Other Explanatory Material

A key improvement in making the standards easier to understand and apply is the *application and other explanatory material* section of each clarified standard. This section can provide a great deal of insight to auditors because it provides guidance for, and an explanation of, the required audit procedures, cross-referenced to the relevant requirement.

Many AU-C sections include "Considerations Specific to Smaller, Less Complex Entities" in the *application and other explanatory material* section of the guidance. These were prepared with the specific goal of improving the usability of the standards for auditors of smaller entities.

As a result of the Clarity Project's objective of converging with IAASB, AU sections have been reorganized and renumbered. Currently "AU-C" section numbers are being used as a temporary identifier to avoid confusion with references to existing "AU" sections, which will remain in AICPA *Professional Standards* through 2013.

The "AU-C" identifier will revert back to "AU" in 2014, by which time substantially all engagements for which "AU" sections were still effective are expected to be completed.

When are the new SASs effective?

Most sections of SAS Nos. 122-125 are effective for audits of financial statements for periods ending after December 15, 2012. Refer to the individual section for more detail on effective dates.

Should I be aware of terminology changes?

SAS Nos. 122-125 introduce new terminology that will be important for auditors to understand. Below are a few key terminology changes of which you need to be aware (a more complete list of the terminology is available in the clarity standards):

Old Term	New Term	New Term Definition
Basis of reporting (such as GAAP or OCBOA)	Applicable financial reporting framework	The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation of financial statements. Includes GAAP, IFRS or a special purpose framework.
Other comprehensive basis of accounting (OCBOA)	Special purpose framework	A financial reporting framework other than GAAP or IFRS prepared using a basis that is either cash, tax, regulatory or contractual.
	Preconditions for an audit	The use by management of an acceptable financial reporting framework in the preparation and fair presentation of the financial statements and the agreement of management and, when appropriate, those charged with governance, to the premise on which an audit is conducted.

Old Term	New Term	New Term Definition
Explanatory paragraphs	Emphasis-of-matter and other-matter paragraphs	<p>Emphasis-of-matter paragraphs in an auditor's report refer to a matter that is presented or disclosed in the financial statements.</p> <p>Other-matter paragraphs in the auditor's report refer to a matter other than those presented or disclosed in the financial statement that, in the auditor's judgment, is relevant to a user's understanding of the audit, the auditor's responsibilities or the auditor's report.</p>
Principal auditor and other auditor	Group engagement partner and component auditor	<p>A group engagement partner is the auditor who is responsible for the auditor's report on the group financial statements.</p> <p>A component auditor performs work on financial information related to a component for the group audit and can be an auditor within the same audit firm or a different audit firm as the group engagement partner.</p>

Should our audit team prepare for auditing changes?

SAS Nos. 122-125 impacts engagements at all phases – planning/engagement acceptance, fieldwork and reporting; therefore, you will need to begin to implement new procedures as you prepare for your calendar

year 2012 engagements. The **Learning and Implementation Plan** component of the [PCPS Clarified Auditing Standards Toolkit](#) provides a roadmap to implementing the changes in your practice, with one of the first steps being your review of this **Snapshot Overview** to identify what has changed.

As you're reading the **Snapshot Overview** grids that are included in the full document, you may notice that the clarified standards require documentation and procedures that your firm may or may not have performed before and may have differing impacts on your firm depending on your existing methodology and audit processes. Further, the auditor will likely have increased communications with clients that need to occur earlier in the audit process. Clearly communicating and managing client expectations and changes in the scope of their audit will be key to a smooth transition. Overall, SAS Nos. 122-125 provide the auditor with more detailed guidance in a consistent, easier-to-read format that stimulates conversations with management. Additionally, the new SASs provide a better alignment of the audit procedures to be performed with the risk assessment standards.

Where can I go for additional information to begin to transition to the clarity standards?

In addition to the complete **Snapshot Overview**, the [PCPS Clarified Auditing Standards Toolkit](#) (www.aicpa.org/pcps/CASToolkit) provides the following:

- [Learning and Implementation Plan](#)
- [Staff Training PowerPoint](#)
- [Map of AU-Cs to Prior AUs](#)
- [Client Considerations Evaluation Worksheet](#)
- [Template for Client Newsletters or Firm Websites](#)
- [Client Communication Letter Template](#)

Start with the **Learning and Implementation Plan**, which is a checklist of tactics to guide you in implementing the new standards within your firm. The checklist provides a roadmap and guidance in using the components of the PCPS Clarified Auditing Standards Toolkit, as well as links to additional resources provided by the AICPA's Financial Reporting Center and includes white papers, free videos and specific training publications and conferences to further expand your knowledge.

Note: The remainder of the PCPS Clarified Auditing Standards Snapshot Overview, which contains grids highlighting what's different, auditor and client considerations, and sample engagement letters and reports, is available free to [PCPS members](#) as part of the [PCPS Clarified Auditing Standards Toolkit](#).

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