

AU-C 935 Amendments

I. Objective of Agenda Item

To review and vote to issue as final proposed Statement on Auditing Standards (SAS) *Amendments to AU-C Section 935*. The proposed SAS proposes amendments to AU-C section 935, *Compliance Audits*, to update AU-C section 935 *Appendix—AU-C Sections That Are Not Applicable to Compliance Audits* and to conform AU-C section 935 for the issuance of the following SASs:

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

II. AU-C 935 Task Force

Maria Manasses, *Chair*
Maxene Bardwell
Erica Forhan
Mandy Nelson
George Strudgeon

The Task Force is staffed by Ahava Goldman and Teresa Bordeaux, *AICPA Governmental Auditing and Accounting Team*.

III. Background

AU-C section 935, *Compliance Audits*, addresses the application of GAAS to a compliance audit. AU-C sections 200–900 address audits of financial statements, as well as other kinds of engagements. Generally, these AU-C sections can be adapted to the objectives of a compliance audit. However, certain AU-C sections, or portions thereof, are not applicable to a compliance audit because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in AU-C section 935. These AU-C sections, or specified requirements thereof, are identified in the appendix to AU-C section 935, “AU-C Sections That Are Not Applicable to Compliance Audits” (“the Appendix”).

The AU-C 935 Task Force was charged with proposing amendments to AU-C section 935, *Compliance Audits*, to update the Appendix and conform AU-C section 935 for the issuance of the following SASs:

- SAS No. 142, *Audit Evidence* (AU-C sec. 500)
- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*
- 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* (AU-C sec. 540)
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C sec. 315)

IV. Summary of Comments and Task Force Response

Fourteen (14) **comment letters** were received. All were supportive of the project and agreed with the proposed effective date. Informal comments were submitted in support of the amendments (that is, a few firms not wishing to go through the formal process of issuing letters indicated their support verbally to the Task Force chair).

Comments suggesting revisions to the proposed standards were primarily editorial. The Task Force discussed each comment (see rows 27-36 in agenda item 2B). The Task Force did not change any wording that was consistent with wording in another AU-C section. In addition, the Task Force concluded that certain comments were best addressed through the Governmental Audit & Accounting Guide, and the AICPA staff liaison to the Governmental Expert Panel took note of those. Lastly, certain comments will be addressed through the supplemental material issued with each new standard, such as *At a Glance* and the Executive Summary.

The Task Force is proposing the following revisions to the proposed standard:

A. **Effective Date**

One comment requested expansion and revision of the wording of the effective date.

As Exposed

1. This amendment is effective for compliance audits for fiscal periods ending on or after December 15, 2023, except as indicated in the appendix in renumbered paragraph .A45.

Proposed Revision

1. The amendment relating to AU-C section 501 in the Appendix, “AU-C Sections That Are Not Applicable to Compliance Audits”, is effective for compliance audits for fiscal periods ending on or after December 15, 2022. All other amendments are effective for compliance audits for fiscal periods ending on or after December 15, 2023.

B. **Paragraph .02 of AU-C 935**

Two comments suggested clarifications to paragraph 2 of AU-C section 935 with regard to the applicability of the standard, as follows:

- One respondent noted that most states and federal agencies perform numerous compliance audits every year that are not related to “...an audit of a complete set of financial statements...single financial statement or an audit of a specific element, account, or item of a financial statement.” Such compliance audits may be performed in accordance with GAAS.
- Another respondent noted that the proposed amendments to paragraph 2 of AU-C 935 include an edit to clarify that compliance audits can not only be performed in conjunction with a complete set of financial statements, but also in conjunction with an audit of a single financial statement or an audit of a specified element, account, or item of a financial statement. While the proposed SAS revised the first sentence of paragraph 2, it did not similarly revise the last sentence to replace “audit of financial statements” with the complete list of types of audits of historical financial information.

As exposed

- .02** This section addresses the application of GAAS to a compliance audit. Compliance audits usually are performed in conjunction with ~~a financial statement~~ **an audit of a complete set of financial**

statements, but may also be performed in conjunction with an audit of a single financial statement or an audit of a specific element, account, or item of a financial statement. This section does not apply to the financial statement audit component of such engagements. Although certain AU-C sections are not applicable to a compliance audit, as identified in the [appendix](#) “AU-C Sections That Are Not Applicable to Compliance Audits,” all AU-C sections other than this section are applicable to the audit of financial statements performed in conjunction with a compliance audit.

Proposed revision:

.02 This section addresses the application of GAAS to a compliance audit. Compliance audits ~~usually are~~ **may be** performed in conjunction with ~~a financial statement~~ **an audit of a complete set of financial statements, an audit of a single financial statement, or an audit of a specific element, account, or item of a financial statement.** This section does not apply to ~~the~~ **an audit of a complete set of financial statements, an audit of a single financial statement, or an audit of a specific element, account, or item of a financial statement, even when such audit is performed in conjunction with a compliance audit** component of such engagements. Although ~~certain~~ **Certain** AU-C sections are not applicable to a compliance audit, as identified in the [appendix](#) “AU-C Sections That Are Not Applicable to Compliance Audits.” ~~all AU-C sections other than this section are applicable to the audit of financial statements performed in conjunction with a compliance audit.~~

Agenda Items Presented:

- 2A** Summary of Comments
- 2B** Proposed SAS *Amendments to AU-C section 935*
- 2C** Executive Summary