

AU- C 935 Summary of Comments

Respondents

1. Commonwealth of Virginia
2. Michigan Office of the Auditor General
3. Tennessee Comptroller of The Treasury
4. Virginia Society of CPAs
5. National State Auditors Association
6. RSM US LLP
7. KPMG LLP
8. Texas Society of Certified Public Accountants
9. Eide Bailly LLP
10. National Association of State Boards of Accountancy
11. Florida Institute of Certified Public Accountants
12. Association of Local Government Auditors
13. Deloitte & Touche LLP
14. Moss Adams LLP

Agenda Item 2A – AU-C 935 Amendments Summary of Comments

Row #	Node	Name	Coded Text	Comment
1	Q1\Agree	01-Virginia State Auditor	We agree with the Board's proposed changes to the existing standards.	Supportive
2	Q1\Agree	02-michigan	Yes, we consider the amendments as thorough and properly address the issues noted with SAS 142 and SAS 145. We have no suggested edits.	Supportive
3	Q1\Agree	03-Tennessee	We believe the proposed amendments to AU-C 935, including the proposed amendments to the appendix, are appropriate and complete. We also agree that the proposed changes are consistent with SASs 142 and 145.	Supportive
4	Q1\Agree	04-virginia-society	Overall, we support the proposed amendments to AU-C Section 935. We believe the proposed amendments are appropriate and complete. The additional language identifying paragraphs that are not applicable to a compliance audit is helpful to those in public practice and consistent with SAS 142 and 145.	Supportive
5	Q1\Agree	05-nsaa	We believe the proposed amendments to AU-C section 935, as well as to the appendix, are appropriate and complete.	Supportive
6	Q1\Agree	06-rsm-us-llp	We believe the proposed amendments to AU-C section 935 and its appendix are appropriate and complete.	Supportive
7	Q1\Agree	07-kpmg	Yes, we believe the Proposed SAS is complete and provides conformity to reflect the issuance of SAS No. 142, Audit Evidence (AU-C section 500) and SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AU-C section 315). Further, we believe the Proposed SAS is consistent with SAS Nos. 142 and 145.	Supportive
8	Q1\Agree	08-txcpa	The PSC has concluded that the proposed statement of amendment to AU-C Section 935 is consistent with SAS Nos. 142 and 145. Proposed changes to AU-C Section 935 appear to extend requirements currently in place for other audit types to compliance audits and are consistent with clarifications and examples provided in previous guidance. The proposed statement does not appear to contain changes from existing practice.	Supportive
9	Q1\Agree	09-eide bailey	We believe that the proposed amendments to AU-C 935 are appropriate.	Supportive

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10	Q1\Agree	10-nasba	The proposed amendments to AU-C section 935, including the proposed amendments to the appendix, are appropriate. We have reviewed the document and have no further comments.	Supportive
11	Q1\Agree	11-FICPAS	The Committee believes the proposed amendments will result in consistency of applying recently issued SASs in audits of financial statements and in compliance audits.	Supportive
12	Q1\Agree	12 -ALGA	We agree that the proposed amendments to AU-C Section 935 are appropriate.	Supportive
13	Q1\Agree	12 -ALGA	Lastly, we agree that the proposed revisions to AU-C Section 935, arising from changes to SAS Nos. 142 and 145, are consistent with the statements and help to ensure their continued applicability to the compliance audit.	Supportive
14	Q1\Agree	13-Deloitte	Yes, Deloitte believes that the proposed amendments to AU-C 935, including the updates to the appendix, are appropriate and complete. We believe that the conforming changes for SAS 142, Audit Evidence, and SAS 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, were appropriately incorporated into the proposed amendments.	Supportive
15	Q1\Agree	14-Moss Adams	<p>We support the efforts of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) to conform AU-C section 935 to reflect recently issued standards, and clean up certain inconsistencies that existed. We anticipate many more compliance audits being performed in the future, and as new auditors come to apply AU-C section 935 for the first time, it's very helpful for the section to be well integrated into the rest of the codified auditing standards.</p> <p>We believe the proposed amendments to AU-C section 935 and related appendix are appropriate and complete, considering the objective to conform AU-C section 935 to reflect recently issued standards. We look forward to and support the further proposed amendment of AU-C section 935, included in the Exposure Draft Proposed Statement on Auditing Standards, <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)</i>, that would indicate that AU-C section 600 is not applicable to compliance audits.</p>	Supportive
16	Q2\Agree	03-Tennessee	We agree that the proposed effective date is clear.	Supportive

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17	Q2\Agree	04-virginia-society	We also believe the effective date of the proposed amendments are clear.	Supportive
18	Q2\Agree	05-nsaa	We believe the effective date of the proposed amendments is clear.	Supportive
19	Q2\Agree	06-rsm-us-llp	We believe the effective date of the proposed amendments is clear. We believe the information provided in the “Explanation of Effective Date” section is very helpful in clarifying why the amendment to the appendix with regard to AU-C section 501 is effective earlier than all the other proposed amendments.	Supportive
20	Q2\Agree	07-kpmg	Yes, we believe the effective date is sufficiently described in the Proposed SAS and in the appendix in renumbered paragraph .A45.	Supportive
21	Q2\Agree	08-txcpa	The PSC thinks that the proposed effective date of the proposed amendments is clear.	Supportive
22	Q2\Agree	09-eide bailey	The effective dates, as written, are clear.	Supportive
23	Q2\Agree	10-nasba	The description of the effective date of the proposed amendments is clear. Because these types of compliance audits are completed in conjunction with a financial statement audit, it makes sense to align the effective dates of the proposed amendments to the underlying SASs.	Supportive
24	Q2\Agree	12 -ALGA	The effective date of the proposed amendments is clear.	Supportive
25	Q2\Agree	13-Deloitte	Yes, Deloitte believes that the effective dates in the proposed SAS are clear.	Supportive
26	Q2\Agree	14-Moss Adams	We also believe the stated rationale for the effective date is clear, and we appreciate the ability to early implement.	Supportive
27	Q2\Revise: Par. 1	02-michigan	The ED states “All other proposed amendments in this proposed SAS would be effective for compliance audits for fiscal periods ending on or after December 15, 2023. Early implementation is permitted.” Instead of the “early implementation is permitted” provision, consider amending that sentence to require adopting these amendments when SAS 145 is adopted. This will remind early adopters of SAS 145 to adopt the AU-C 935 amendments at the same time.	To be addressed in supporting documents (At a Glance)

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28	Q2\Revise Par. 1	11-FICPAS	<p>It is the opinion of the Committee that the effective date language in paragraph 1 of the ED needs to be expanded. The Effective Date section of the Explanatory Memorandum accompanying the ED uses different language to communicate the effective date of the proposed standard than the language in paragraph 1 in the body of the ED. Paragraph 1 of the ED delineates only the December 15, 2023, date and then references the renumbered paragraph .A45 in the appendix for exceptions to this effective date. The Explanatory Memorandum specifies the December 15, 2023, effective date with regard to AU-C section 501, <i>Audit Evidence – Specific Considerations for Selected Items</i>, and then states “All other proposed amendments in this proposed SAS would be effective for compliance audits for fiscal periods ending on or after December 15, 2023.”.</p> <p>The Committee believes the language in paragraph 1 of the ED should include language similar to the Explanatory Memorandum. Additionally, the Committee believes solely referencing a paragraph in a related appendix is inappropriate and may cause confusion among auditors.</p>	See issue A
29	Editorial: Par. 2	11-FICPAS	<p>However, the Committee has the following concerns.</p> <ul style="list-style-type: none"> · Paragraph .02 as amended is not necessarily true for compliance audits performed at the state and federal level. 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.” These audits are typically performance audits or attest engagements (as defined in Government Auditing Standards) which require the auditors to perform these engagements in accordance with GAAS. Therefore, the Committee believes paragraph .02 should clarify the requirements of AU-C section 935 apply to these types of compliance audits. 	See Issue B. Note, performance audits are not performed in accordance with GAAS.

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30	Editorial: Par. 02	13-Deloitte	<p>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. However, instead of revising the last sentence to also include how AU-C section 805, <i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i>, applies, we recommend one of the following alternatives for clarity and simplicity (additions are shown in bold underline and deletions are shown in strikethrough text):</p> <p>.02 This section addresses the application of GAAS to a compliance audit. Compliance audits usually are performed in conjunction with <u>This section (including the appendix “AU-C Sections That Are Not Applicable to Compliance Audits”)</u> does not apply to the 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, which are usually performed in conjunction with a compliance audit. 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.</p> <p style="text-align: center;">OR</p> <p>.02 This section addresses the application of GAAS to a compliance audit. Compliance audits usually are performed in conjunction with 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 (including the appendix “AU-C Sections That Are Not Applicable to Compliance Audits”) does not</p>	See Issue B

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			<p>apply to the audit of a complete set of financial statements, audit component of such engagements. audit of a single financial statement, or audit of a specific element, account, or item of a financial statement, which are usually performed in conjunction with a compliance audit. 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.</p>	
31	Editorial: Par. 19	12 -ALGA	<p>However, the AICPA should consider revising Paragraph .19 of the Requirements section, Assessing Inherent Risk, for added clarity. The phrase “take into account” does not appear applicable to assessing the inherent risk for noncompliance. Assessing the likelihood and magnitude of noncompliance involves determining how and to what degree inherent risk factors affect how susceptible compliance requirements are to noncompliance. As such, we propose the following change to this paragraph:</p> <p>Assessing Inherent Risk .19 For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess inherent risk by assessing the likelihood and magnitude of noncompliance. In doing so, the auditor determines how, and the degree to which, inherent risk factors affect the susceptibility of compliance requirements to noncompliance.</p>	<p>Phrase “taking into account” is consistent with AU-C section 315, and using “determine” would change the auditor’s responsibilities; no change.</p>
32	Editorial: Par. A14	11-FICPAS	<p>Paragraph .A14 in the Application and Other Explanatory Material section delineates five interrelated components of internal control for purposes of Generally Accepted Auditing Standards (GAAS). It is the opinion of the Committee that these elements should be listed in the same order as the elements delineated in the Committee of Sponsoring Organizations (COSO) Framework. Since the Uniform Guidance issued by the Office of Management and Budget cites the COSO Framework as a best practice (i.e., “should”), the Committee believes the elements in audit standards relating to compliance audits should follow the order of the COSO Framework.</p>	<p>Listed in same order as in AU-C section 315; no change</p>

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33	Editorial: Par. A15	06-RSM	<p>We ask that the board consider whether new paragraph .A15 of the proposed SAS would be easier to understand if it were revised to consistently refer to “controls” in the plural form of the word as follows (proposed deletions are struck through, and proposed additions are underlined):</p> <p style="padding-left: 40px;">A15 Evaluating whether controls that address risks of material noncompliance are effectively designed, and determining whether those controls have been implemented, involves considering whether the identified controls, individually or in combination, are capable of effectively preventing, or detecting and correcting, material noncompliance as well as establishing that the controls <u>over compliance</u> exist, and that the entity is using <u>them</u>.</p>	No change, wording is consistent with AU-C section 315.
34	Editorial: Appendix	09-Eide Bailey	<p>However, we believe additional clarification in the appendix would help auditors to understand the applicability, or lack thereof, of certain other AU-C sections to AU-C 935 engagements. Because the auditing standards are written from a financial statement perspective, there can be confusion regarding which sections are also applicable in a compliance audit. This lack of clarity can create diversity in practice in applying the relevant auditing standards to compliance audits. While not a fully inclusive list, below are some examples where clarity would be helpful. Within the appendix of this ED and on a more limited scale in the extant AU-C 935, the identification of significant risks as outlined in paragraphs .32-.38 of AU-C Section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> is not applicable to a compliance audit; however, AU-C Section 260, <i>The Auditor’s Communication with Those Charged with Governance</i> (AU-C 260) is fully applicable. How does paragraph 11 of AU-C 260, which requires communication of significant risks identified by the auditor to those charged with governance, apply to a compliance audit when the identification of significant risks within AU-C 315 has been scoped out by the appendix and risk assessment within AU-C 935 does not incorporate a process to identify significant risks? Is it the Board’s intent for auditors to communicate identified risks of noncompliance to those charged with governance as significant risks, even though the concept of a significant risk is not applicable?</p>	Because the requirement to identify significant risks is scoped out, no significant risks would be identified; therefore, the requirement to communicate identified significant risks is not applicable in the circumstances. Noted for clarification in future editions of the Governmental AAG.

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35	Editorial: Appendix	09-Eide Bailey	Another item for consideration is related to AU-C Section 240, <i>Consideration of Fraud in a Financial Statement Audit</i> (AU-C 240) specifically paragraph .29c, which states that the auditor should “incorporate an element of unpredictability in the selection of nature, timing, and extent of audit procedures” in determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. Paragraph .29c is not scoped out in the appendix to AU-C 935; however, given the nature of compliance audits and their objective to provide an opinion on compliance with applicable compliance requirements, it is unclear whether an element of unpredictability is also required in a compliance audit performed in accordance with AU-C 935. We recognize this is not a change from the extant AU-C 935 appendix; however, we thought it would be helpful for the Board to provide clarification about whether it is their intent for auditors to incorporate an element of unpredictability in a compliance audit.	Noted for clarification in future editions of the Governmental AAG.
36	Editorial: other	03-Tennessee	We do, however, suggest that the ASB consider adding the reasons (i.e., why) for the changes from the “Explanatory Memorandum” to the “Application and Other Explanatory Material” similar to a “Basis for Conclusions” in GAAP. This would provide more context for auditors to apply their professional judgment.	To be addressed in supporting documents (Executive Summary)