

## Executive Summary

Statement on Auditing Standards (SAS) No. 148, *Amendment to AU-C Section 935*, amends SAS No. 117, *Compliance Audits*, as amended (AICPA, *Professional Standards*, AU-C sec. 935).

### Background

AU-C section 935, *Compliance Audits*,<sup>1</sup> addresses the application of generally accepted auditing standards (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).

SAS No. 148 amends AU-C section 935 to update the appendix and conform AU-C section 935 to reflect the issuance of the following SASs:

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

The Auditing Standards Board (ASB) has determined that no amendment is necessary to AU-C section 935 to reflect the issuance of the following SASs:

- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures* (AU-C section 540)
- 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*

SAS No. 143 is codified in AU-C section 540, which is listed in the appendix as not applicable in its entirety to a compliance audit. SAS No. 144 amends only certain application material that is not relevant to AU-C section 935.

### Explanation of Changes

#### *Revisions Arising From SAS No. 142*

SAS No. 142 superseded SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, section 500, *Audit Evidence* (AU-C sec. 500A), and amended various AU-C sections, including AU-C section 501, *Audit Evidence — Specific Considerations for Selected Items*. The amendments in SAS No. 142 moved what had been paragraph .08 of AU-C section 500A, relating to using the work of a management’s specialist, to become paragraph .27 of AU-C section 501, without any substantive changes to that paragraph. This paragraph was applicable to compliance audits when it was in AU-C section 500A, and that applicability didn’t change when it was relocated. Accordingly, the appendix is revised to reflect the continued applicability of this paragraph in a compliance audit. No other paragraph in AU-C section 501 applies to a compliance audit.

#### *Revisions Arising From SAS No. 145*

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<sup>1</sup> All AU-C sections can be found in AICPA *Professional Standards*.

- Paragraphs .12c, .26–.30, and .33c of AU-C section 315A are not applicable to a compliance audit. The appendix was updated to include comparable paragraphs (19b, 20, 32–34, 36, and 42d) of SAS No. 145 as not applicable to a compliance audit.
- Paragraphs 27a of SAS No. 145, which relates to controls over significant risks, and paragraph 40, which relates to classes of transactions, account balances, and disclosures that are not significant but are material, were added to the appendix as not applicable in a compliance audit. Historically, the concept of significant risks has not been applicable to a compliance audit. Likewise, the concept of classes of transactions, account balances, and disclosures that are material is not applicable to a compliance audit.
- Paragraphs 26 and 27b–.30 of SAS No. 145, which address requirements related to the control activities component, apply to a compliance audit. In particular, paragraph 27b–d addresses certain controls that the auditor is required to identify. A new requirement was added to AU-C section 935 to address the auditor’s responsibility in adapting and applying paragraphs 27b–.30 of SAS No. 145 in a compliance audit. This new requirement also includes controls over compliance that are required to be tested for operating effectiveness by a governmental audit requirement (paragraph .20 of extant AU-C section 935). Thus, the new requirement combines the auditor’s responsibilities under AU-C section 315 and AU-C section 935. Paragraphs .28–.29 of AU-C section 315 include additional requirements related to control activities related to risks arising from the use of IT that also apply to a compliance audit.
- For ease of use and clarity of the requirements related to identifying and assessing risks of material noncompliance, paragraphs 35 and 37–38 of SAS No. 145, adapted as necessary, were added as requirements directly in AU-C section 935 and, consequentially, included in the appendix as not applicable when applying AU-C section 315 to a compliance audit. Application material was added to AU-C section 935 that references the 22 relevant application material paragraphs for paragraphs 35 and 37–38 in SAS No. 145.
- Extant AU-C section 935 excludes, within the appendix, the documentation requirement related to the identified and assessed risks at the financial statement level and assertion level (paragraph .33c of AU-C section 315A). The ASB believes that this requirement, adapted as necessary, is applicable to a compliance audit and, therefore, a new requirement was added to AU-C section 935 based on paragraph 42d of SAS No. 145, which, consistent with other revisions, excludes significant risks. Accordingly, paragraph 42d of SAS No. 145 has been included in the appendix (and thereby is not applicable in a compliance audit).

*Other Revisions*

- There is an inconsistency in extant AU-C section 935 whereby the requirements in AU-C section 315 with respect to significant risks were scoped out of a compliance audit, but the requirements in AU-C section 330 with respect to significant risks were not. This inconsistency has been removed by adding paragraphs .15 and .22 of AU-C section 330 to the appendix.
- Paragraph .18 of AU-C section 330 was also added to the appendix, as performing substantive procedures for each relevant assertion of each significant class of transactions, account balance, and disclosure is not applicable in a compliance audit.
- Certain other editorial revisions were made for clarity or consistency with other AU-C sections.

**Effective Date**

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, consistent with the effective date of SAS 142. All other amendments are effective for compliance audits for fiscal periods ending on or after December 15, 2023, consistent with the effective date of SAS 145.

The effective date of the amendment to the appendix with regard to AU-C section 501 is aligned with the effective date of SAS No. 142, because, as explained previously, this amendment arises from SAS No. 142. This amendment is not intended to change current practice, as there were no changes to the underlying requirement; only its placement within GAAS changed. All other amendments in SAS No. 148 arise from SAS No. 145 and, accordingly, their effective date is aligned with the effective date of SAS No. 145.

Early implementation of SAS No. 148 is permitted. The Auditing Standards Board recommends that any firm that performs compliance audits implement SAS No. 148 concurrently with its implementation of SAS No. 145.