



*Statement on
Auditing Standards*

*June 2022
146*

Issued by the Auditing Standards Board

**Quality Management for an Engagement Conducted in
Accordance With Generally Accepted Auditing Standards**

(Supersedes Statements on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 220, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards [AICPA, Professional Standards, AU-C sec. 220]; amends

- *SAS No. 117, Compliance Audits, as amended [AICPA, Professional Standards, AU-C sec. 935]*
- *SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended*
 - *Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards [AICPA, Professional Standards, AU-C sec. 200]*
 - *Section 210, Terms of Engagement [AICPA, Professional Standards, AU-C sec. 210]*
 - *Section 230, Audit Documentation [AICPA, Professional Standards, AU-C sec. 230]*
 - *Section 260, The Auditor's Communication With Those Charged With Governance [AICPA, Professional Standards, AU-C sec. 260]*
 - *Section 300, Planning an Audit [AICPA, Professional Standards, AU-C sec. 300]*

- **Section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors) [AICPA, Professional Standards, AU-C sec. 600]**
- **Section 620, Using the Work of an Auditor’s Specialist [AICPA, Professional Standards, AU-C sec. 620]**
- **Section 930, Interim Financial Information [AICPA, Professional Standards, AU-C sec. 930]**
- **SAS No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, as amended [AICPA, Professional Standards, AU-C sec. 940]**
- **SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as amended**
 - **Section 700, Forming an Opinion and Reporting on Financial Statements [AICPA, Professional Standards, AU-C sec. 700]**
 - **Section 701, Communicating Key Audit Matters in the Independent Auditor’s Report [AICPA, Professional Standards, AU-C sec. 701]**
- **SAS No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as amended [AICPA, Professional Standards, AU-C sec. 703]**
- **SAS No. 137, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports, as amended [AICPA, Professional Standards, AU-C sec. 720]**
- **SAS No. 142, Audit Evidence [AICPA, Professional Standards, AU-C sec. 500]**
- **Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, as amended, Section 105, Concepts Common to All Attestation Engagements [AICPA, Professional Standards, AT-C sec. 105])**

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¹ All ET sections can be found in AICPA *Professional Standards*.

CONTENTS

	Paragraph
Introduction	
Scope of This Statement on Auditing Standards	1
The Firm's System of Quality Management and the Role of Engagement Teams	2–9
Effective Date	10
Objective	11
Definitions	12
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on Audits	13–15
Relevant Ethical Requirements, Including Those Related to Independence	16–21
Acceptance and Continuance of Client Relationships and Audit Engagements	22–24
Engagement Resources	25–28
Engagement Performance	29–38
Monitoring and Remediation	39
Taking Overall Responsibility for Managing and Achieving Quality	40
Documentation	41
Application and Other Explanatory Material	
Scope of this SAS	A1
The Firm's System of Quality Management and Role of Engagement Teams	A2–A14
Definitions	A15–A27
Leadership Responsibilities for Managing and Achieving Quality on Audits	A28–A37
Relevant Ethical Requirements, Including Those Related to Independence	A38–A48
Acceptance and Continuance of Client Relationships and Audit Engagements	A49–A58

Engagement Resources	A59–A80
Engagement Performance	A81–A109
Monitoring and Remediation	A110–A113
Taking Overall Responsibility for Managing and Achieving Quality	A114–A117
Documentation	A118–A121
Appendix — Amendments to Various Statements on Auditing Standards, as Amended, and Statement on Standards for Attestation Engagements No. 18, <i>Attestation Standards: Clarification and Recodification</i> , as Amended, section 105, <i>Concepts Common to All Attestation Engagements</i> , in AICPA Professional Standards	A122

Statement on Auditing Standards No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. This SAS also applies, adapted as necessary, to other engagements conducted in accordance with generally accepted auditing standards (GAAS) (for example, a review of interim financial information conducted in accordance with AU-C section 930, *Interim Financial Information*). * This SAS is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements. (Ref: par. A1 and A38)

2. Although government audit organizations are subject to the quality control and assurance requirements of *Government Auditing Standards*, and Statements on Quality Management Standards (SQMSs) are not applicable to auditors in government audit organizations,¹ this SAS is applicable to auditors in government audit organizations who perform financial audits in accordance with GAAS.

The Firm's System of Quality Management and the Role of Engagement Teams

3. Under SQMS No. 1, *A Firm's System of Quality Management*, the objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice that provides the firm with reasonable assurance that (Ref: par. A2–A3)

- a. the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
- b. engagement reports issued by the firm or engagement partners are appropriate in the circumstances.²

4. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this SAS, for the following: (Ref: par. A4–A11)

- a. Implementing the firm's responses to quality risks (that is, the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm

* All AU-C sections can be found in AICPA *Professional Standards*.

¹ Paragraph 5 of Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*.

² Paragraph 15 of SQMS No. 1.

- b. Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures
 - c. Communicating to the firm information from the audit engagement that is required by the firm's policies or procedures to be communicated to support the design, implementation, and operation of the firm's system of quality management
- 5. Complying with the requirements in other AU-C sections may provide information that is relevant to quality management at the engagement level. (Ref: par. A12)
- 6. The public interest is served by the consistent performance of quality audit engagements that achieve the objective of this SAS and other AU-C sections. A quality audit engagement is achieved through planning and performing the engagement and reporting on it in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and maintaining professional skepticism.
- 7. In accordance with AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,³ the engagement team is required to plan and perform an audit with professional skepticism and to exercise professional judgment. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate maintenance of professional skepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate maintenance of professional skepticism, such as unconscious bias or resource constraints. (Ref: par. A33–A36)

Scalability

- 8. The requirements of this SAS are intended to be applied in the context of the nature and circumstances of each audit. Examples follow:
 - When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this SAS are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: par. A13–A14)
 - When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks, or actions to other members of the engagement team.

The Engagement Partner's Responsibilities

³ Paragraphs .17–.18 and .A22–.A31 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

9. The engagement partner remains ultimately responsible and, therefore, accountable for compliance with the requirements of this SAS. Nevertheless, the engagement partner may seek assistance from others to fulfill these responsibilities. The phrase “take responsibility for...” is used for those requirements for which the engagement partner is permitted to assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement team. For other requirements, this SAS expressly intends that the requirement or responsibility be fulfilled by the engagement partner. In such circumstances, the engagement partner may need to obtain information from the firm or other members of the engagement team. For example, when others perform supervisory and review activities, the outcomes of those activities can be taken into account by the engagement partner in fulfilling these responsibilities. (Ref: par. A22–A25)

Effective Date

10. This SAS is effective for engagements conducted in accordance with GAAS for periods beginning on or after December 15, 2025.

Objective

11. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that

- a. the auditor has fulfilled the auditor’s responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements, and
- b. the auditor’s report issued is appropriate in the circumstances.

Definitions

12. For purposes of GAAS, the following terms have the meanings attributed as follows:

Engagement partner.⁴ The partner or other individual appointed by the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.

Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

Engagement team. All partners and staff performing the audit engagement and any other individuals who perform audit procedures on the engagement, excluding an auditor’s

⁴ *Engagement partner, partner, and firm* refer to their governmental equivalents when relevant.

external specialist⁵ and internal auditors who provide direct assistance on an engagement.⁶ (Ref: par. A15–A25)

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in public practice. (Ref: par. A26)

Inspection. Inspection is an evaluation of the adequacy of aspects of the firm’s quality management policies and procedures, its personnel’s understanding of those policies and procedures, and the extent of the firm’s compliance with them.

Network. As defined in “Definitions” (ET sec. 0.400)[‡] in the AICPA code, an association of entities that includes one or more firms. (Ref: par. A27)

Network firm. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, a firm or other entity that belongs to a network. References to a *network firm* are to be read hereafter as “another firm or entity that belongs to the same network as the firm.” (Ref: par. A27)

Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, *partner* may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.

Personnel. Partners and staff in the firm.

Professional standards. Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code, or by other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are subject, which consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.

Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks.

- Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- Procedures are actions to implement policies.

⁵ Paragraph .06 of AU-C section 620, *Using the Work of an Auditor’s Specialist*, defines the term *auditor’s specialist*.

⁶ AU-C section 610, *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance.

[‡] All ET sections can be found in AICPA *Professional Standards*.

Staff. Professionals, other than partners, including any specialist the firm employs.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

13. The engagement partner should take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: par. A28–A37)

14. In creating the environment described in paragraph 13, the engagement partner should take responsibility for clear, consistent, and effective actions being taken that reflect the firm's commitment to quality and that establish and communicate the expected behavior of engagement team members, including emphasizing the following: (Ref: par. A30–A34)

- a.* That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level
- b.* The importance of professional ethics, values, and attitudes to the members of the engagement team
- c.* The importance of open and robust communication within the engagement team and supporting the ability of engagement team members to raise concerns without fear of reprisal
- d.* The importance of each engagement team member maintaining professional skepticism throughout the audit engagement

15. If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this SAS to other members of the engagement team to assist the engagement partner in complying with the requirements of this SAS, the engagement partner should continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team and review of their work. (Ref: par. 9 and A37)

Relevant Ethical Requirements, Including Those Related to Independence

16. The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: par. A38–A42 and A48)

17. The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)

- a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence
 - b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches
 - c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity⁷
18. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should evaluate the threats by complying with the firm's policies or procedures, using relevant information from the firm, the engagement team, or other sources, and take appropriate action. (Ref: par. A43–A44)
19. The engagement partner should remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: par. A45)
20. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. A46)
21. Prior to dating the auditor's report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: par. A38 and A47)

Acceptance and Continuance of Client Relationships and Audit Engagements

22. The engagement partner should determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate. (Ref: par. A49–A52, A58)
23. The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with GAAS and complying with the requirements of this SAS. (Ref: par. A53–A56)
24. If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action. (Ref: par. A57)

Engagement Resources

25. The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's

⁷ See AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

policies or procedures, and any changes that may arise during the engagement. (Ref: par. A59–A71, A74–A75, and A80)

26. The engagement partner should determine that members of the engagement team, and any auditor’s external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: par. A62 and A72–A75)

27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: par. A76–A79)

28. The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: par. A63–A69)

Engagement Performance

Direction, Supervision, and Review

29. The engagement partner should take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: par. A81)

30. The engagement partner should determine that the nature, timing, and extent of direction, supervision, and review are (Ref: par. A82–A90 and A95–A98)

- a. planned⁸ and performed in accordance with the firm’s policies or procedures, professional standards, and applicable legal and regulatory requirements, and
- b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

31. The engagement partner should review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to (Ref: par. A91–A94)

- a. significant matters;⁹
- b. significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
- c. other matters that, in the engagement partner’s professional judgment, are relevant to the engagement partner’s responsibilities.

32. On or before the date of the auditor’s report, the engagement partner should determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: par. A91–A95)

⁸ Paragraph .11 of AU-C section 300, *Planning an Audit of Financial Statements*.

⁹ Paragraph .08 of AU-C section 230, *Audit Documentation*.

33. Prior to dating the auditor's report, the engagement partner should review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters¹⁰ and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹¹

34. The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. A99)

Consultation

35. The engagement partner should do the following: (Ref: par. A100–A103)

- a. Take responsibility for the engagement team undertaking consultation on
 - i. difficult or contentious matters and matters on which the firm's policies or procedures require consultation and
 - ii. other matters that, in the engagement partner's professional judgment, require consultation.
- b. Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.
- c. Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted.
- d. Determine that conclusions agreed have been implemented.

Engagement Quality Review

36. For audit engagements for which an engagement quality review is required, the engagement partner should (Ref: par. A104)

- a. determine that an engagement quality reviewer has been appointed.
- b. cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so.
- c. discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer.
- d. not release the auditor's report until the completion of the engagement quality review. (Ref: par. A105–A107)

¹⁰ See AU-C section 701, *Communicating Key Audit Matters in the Auditor's Report*.

¹¹ See AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, or AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

Differences of Opinion

37. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, including those who provide consultation, the engagement team should follow the firm's policies or procedures for dealing with and resolving such differences of opinion. (Ref: par. A108–A109)

38. The engagement partner should

- a.* take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures.
- b.* determine that conclusions reached are documented and implemented.
- c.* not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

39. The engagement partner should take responsibility for the following: (Ref: par. A110–A113)

- a.* Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms
- b.* Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39*a* and taking appropriate action
- c.* Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicating such information to those responsible for the process

Taking Overall Responsibility for Managing and Achieving Quality

40. Prior to dating the auditor's report, the engagement partner should determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner should determine that (Ref: par. A113–A116)

- a.* the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement.
- b.* the nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this SAS.

Documentation

- 41.** In applying AU-C section 230, *Audit Documentation*, the auditor should include the following in the audit documentation:¹² (Ref: par. A118–A121)
- a. Significant issues identified, relevant discussions with personnel, and conclusions reached with respect to
 - i. fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence
 - ii. the acceptance and continuance of the client relationship and audit engagement
 - b. The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented
 - c. If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed before the release of the auditor’s report

Application and Other Explanatory Material

Scope of This SAS (Ref: par. 1)

A1. This SAS applies to all audits of financial statements, including audits of group financial statements. AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. AU-C section 600 also provides guidance on how to adapt and apply the requirements of this SAS in an audit of group financial statements involving component auditors. AU-C section 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, AU-C section 600 may be useful when involving such an individual to attend a physical inventory count; inspect property, plant, and equipment; or perform audit procedures at a shared service center at a remote location.

The Firm’s System of Quality Management and the Role of Engagement Teams (Ref: par. 3–9)

- A2.** SQMS No. 1 addresses a firm’s responsibilities for designing, implementing, and operating its system of quality management.
- A3.** Firms may use different terminology or frameworks to describe the components of the system of quality management.

The Engagement Team’s Responsibilities Relating to the Firm’s System of Quality Management (Ref: par. 4)

A4. Quality management at the engagement level is supported by the firm’s system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with SQMS No. 1, the firm is responsible for communicating information that enables the engagement team to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake

¹² Paragraphs .08–.11 of AU-C section 230.

consultations with designated individuals in certain situations involving complex technical or ethical matters or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (for example, the firm may specify that firm-designated credit-risk modeling experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).

A5. Firm-level responses may include policies or procedures established by a network or by other firms, structures, or organizations within the same network (network requirements or network services are described further in SQMS No. 1 within the “Network Requirements or Network Services” section).¹³ The requirements of this SAS are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use an audit methodology developed for use by a network firm). Under SQMS No. 1, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm’s system of quality management.¹⁴

A6. Some firm-level responses to quality risks are not performed at the engagement level but are, nevertheless, relevant when complying with the requirements of this SAS. For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this SAS include the following:

- Personnel recruitment and professional training processes
- The IT applications that support the firm’s monitoring of independence
- The development of IT applications that support the acceptance and continuance of client relationships and audit engagements
- The development of audit methodologies and related implementation tools and guidance

A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises professional judgment in determining whether to design and implement responses, beyond those set forth in the firm’s policies or procedures, at the engagement level to meet the objective of this SAS.¹⁵

A8. The engagement team’s determination of whether engagement-level responses are necessary (and, if so, what those responses are) is influenced by the requirements of this SAS, the engagement team’s understanding of the nature and circumstances of the engagement, and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm.

¹³ Paragraph 50*b* of SQMS No. 1.

¹⁴ Paragraph 50*a* of SQMS No. 1.

¹⁵ AU-C section 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

A9. The relative balance of the engagement team's efforts to comply with the requirements of this SAS (that is, between implementing the firm's responses and designing and implementing engagement-specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (for example, an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement team's actions in complying with the engagement performance requirements of this SAS may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (for example, planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).

A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this SAS, unless

- the engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement, or
- information provided by the firm or other parties about the effectiveness of such policies or procedures suggests they cannot be relied on (for example, information provided by the firm's monitoring activities, external inspections, or other relevant sources indicates that the firm's policies or procedures are not operating effectively).

A11. If the engagement partner becomes aware (including by being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement, or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 39c because such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program. See also paragraph A70 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: par. 5)

A12. Complying with the requirements in other AU-C sections may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, provides information that may be relevant to complying with the requirements of this SAS. Such information may be relevant to the determination of one or more of the following:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high-risk areas or the involvement of experts to deal with complex matters

- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations
- The nature, timing, and extent of review of the work performed by members of the team based on the assessed risks of material misstatement
- The allocation of the budgeted audit hours, including allocating more time and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher

Scalability (Ref: par. 8)

A13. In a smaller firm, the firm's policies or procedures may designate an engagement partner or partners, on behalf of the firm, to design many of the responses to the firm's quality risks at the engagement level because doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management. Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence and, rather, independence will be monitored at the individual engagement level by the engagement partner.

A14. The requirements relating to direction, supervision, and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

Definitions

Engagement Team (Ref: par. 12)

A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures¹⁶ on the audit engagement, excluding an auditor's external specialist¹⁷ and internal auditors who provide direct assistance on an engagement,¹⁸ is a member of the engagement team.

A16. The definition of an *engagement team* focuses on individuals who perform audit procedures on the audit engagement. *Audit evidence*, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.¹⁹ Audit procedures comprise risk assessment procedures²⁰ and further audit procedures.²¹

¹⁶ Paragraph .A44 of AU-C section 500, *Audit Evidence*.

¹⁷ Paragraph .06 of AU-C section 620 defines the term *auditor's specialist*.

¹⁸ AU-C section 610 establishes limits on the use of direct assistance.

¹⁹ Paragraph .A32 of AU-C section 200.

²⁰ AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, provides requirements related to risk assessment procedures.

²¹ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

As explained in AU-C section 500, *Audit Evidence*, audit procedures may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures, and inquiry, often performed in some combination.²² Other AU-C sections may also include specific procedures to obtain audit evidence, for example, AU-C section 520, *Analytical Procedures*.

A17. Engagement teams include personnel and may also include other individuals who perform audit procedures who are from

- a network firm, or
- a firm that is not a network firm or another service provider.²³

For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count, or inspect physical fixed assets at a remote location.

A18. Engagement teams may also include individuals from service delivery centers who perform audit procedures. For example, it may be determined that specific tasks that are repetitive or specialized in nature will be performed by a group of appropriately skilled personnel; thus, the engagement team includes such individuals. Service delivery centers may be established by the firm, the network, or by other firms, structures, or organizations within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.

A19. Engagement teams may include individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A100–A103.

A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.

A21. An internal auditor providing direct assistance and an auditor's external specialist whose work is used in the engagement are not members of the engagement team.²⁴ AU-C section 610, *Using the Work of Internal Auditors*, and section 620, *Using the Work of an Auditor's Specialist*, provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external specialist, respectively. Compliance with these AU-C sections requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor who is providing direct assistance and perform audit procedures on the work of an auditor's specialist.

²² Paragraph .A43 of AU-C section 500.

²³ Paragraph 17v of proposed SQMS No. 1.

²⁴ See paragraphs .12–.13 of AU-C section 620 and paragraphs .20–.24 of AU-C section 610.

The Engagement Partner's Responsibilities (Ref: par. 9, 12)

A22. When this SAS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the engagement partner may need to obtain information from the firm or other members of the engagement team to fulfill the requirement (for example, information to make the required decision or judgment). For example, the engagement partner is required to determine that members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement. To make a judgment on whether the competence and capabilities of the engagement team are appropriate, the engagement partner may need to use information compiled by the engagement team or from the firm's system of quality management.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. 8 and par. 17)

A23. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. Engagement team members from another firm are neither partners nor staff of the engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to those of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.

A24. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm

- has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes, and therefore, the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or oversight body. Paragraphs 22 and A47–A48 of AU-C section 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm's training with regard to the firm's policies or procedures for relevant ethical requirements. The firm's policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as through written confirmation.

A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (for example, consultation on a particular matter), it may be necessary to communicate with individuals who are not personnel about what is expected of them to enable the engagement partner to comply with the firm’s policies or procedures. For example, in a group audit engagement, communicating the group auditor’s policies and procedures about matters subject to consultation to a component auditor enables the component auditor to determine which identified difficult or contentious matters that are relevant to the group financial statements to bring to the attention of the group engagement team.

Firm (Ref: par. 12)

A26. The definition of *firm* in relevant ethical requirements may differ from the definition set out in this SAS.

“Network” and “Network Firm” (Ref: par. 12)

A27. The definitions of *network* or *network firm* in relevant ethical requirements may differ from those set out in this SAS. The AICPA code also provides guidance in relation to the terms *network* and *network firm*. Networks and other network firms may be structured in a variety of ways and are in all cases external to the firm. The provisions in this SAS in relation to networks also apply to any structures or organizations that do not form part of the firm but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality in Audits (Ref: par. 13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A28. SQMS No. 1 requires the firm to establish quality objectives that address the firm’s governance and leadership, which support the design, implementation, and operation of the system of quality management. The engagement partner’s responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this SAS, the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (such as leading by example). A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.

Scalability

A29. The nature and extent of the actions of the engagement partner to demonstrate the firm’s commitment to quality may depend on a variety of factors, including the size, structure, geographical dispersion, and complexity of the firm and the engagement team and the nature and circumstances of the audit engagement. With a smaller engagement team with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A30. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including the following:

- Taking responsibility for the nature, timing, and extent of the direction and supervision of the members of the engagement team and the review of their work in complying with the requirements of this SAS
- Varying the nature, timing, and extent of such direction, supervision, and review in the context of the nature and circumstances of the engagement

Communication

A31. Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this SAS, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team or with

- a. the firm (for example, individuals performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management),
- b. others involved in the audit (for example, internal auditors who provide direct assistance²⁵ or an auditor's external specialist²⁶), or
- c. parties that are external to the firm (for example, management, those charged with governance, or regulatory authorities).

A32. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the appropriate means of effective communication with the members of the engagement team. For example, to support appropriate direction, supervision, and review, the firm may use IT applications to facilitate communication between the members of the engagement team when they are performing work across different geographical locations.

Professional Skepticism (Ref: par. 7)

A33. The engagement partner is responsible for emphasizing the importance of each engagement team member maintaining professional skepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with AU-C section 300, *Planning an Audit*, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

A34. Impediments to the exercise of professional skepticism at the engagement level may include the following:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities in which technical expertise or specialized skills are needed for effective understanding, assessment of, and responses to risks and informed questioning of management.

²⁵ See paragraph .A47 of AU-C section 610.

²⁶ See paragraphs .11c and .A33 of AU-C section 620.

- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise, and review. For example, external time pressures may create restrictions to analyzing complex information effectively.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgments and an informed questioning of management's assertions.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.

A35. Unconscious or conscious auditor biases may affect the engagement team's professional judgments, including, for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional skepticism and, therefore, the reasonableness of the professional judgments made by the engagement team in complying with the requirements of this SAS may include the following:

- *Availability bias*, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not
- *Confirmation bias*, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief
- *Groupthink*, which is a tendency to think or make decisions as a group, discouraging creativity or individual responsibility
- *Overconfidence bias*, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions
- *Anchoring bias*, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed
- *Automation bias*, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions about whether such output is reliable or fit for purpose

A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include the following:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement and requesting

additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement

- Explicitly alerting the engagement team to instances or situations in which vulnerability to unconscious or conscious auditor biases may be greater (for example, areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise be assigned to the engagement
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with
- Involving members of the engagement team with specialized skills and knowledge or an auditor's specialist to assist the engagement team with complex or subjective areas of the audit
- Modifying the nature, timing, and extent of direction, supervision, or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis, or more in-depth reviews of certain working papers for
 - complex or subjective areas of the audit,
 - areas that pose risks to achieving quality on the audit engagement,
 - areas with a fraud risk, and
 - identified or suspected noncompliance with laws or regulations
- Setting expectations for
 - less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner, and
 - more experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice, or assistance
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: par. 15)

A37. Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks, or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including the following:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof, and providing any other necessary instructions and relevant information
- Directing and supervising the assignees
- Reviewing the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34

Relevant Ethical Requirements, Including Those Related to Independence (Ref: par. 16–21)

Relevant Ethical Requirements (Ref: par. 1, 16–21)

A38. AU-C section 200²⁷ requires that the auditor comply with relevant ethical requirements relating to financial statement audit engagements, including those requirements pertaining to independence. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of depository institutions or employee benefit plans. AU-C section 600 includes additional requirements and guidance to those in this SAS regarding communications about relevant ethical requirements with component auditors.

A39. Based on the nature and circumstances of the audit engagement, certain law, regulation, or aspects of relevant ethical requirements, such as those pertaining to noncompliance with laws or regulations, may be relevant to the engagement (for example, laws or regulations dealing with money laundering, corruption, or bribery).

A40. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may do the following:

- Communicate the independence requirements to engagement teams.
- Provide training for engagement teams on relevant ethical requirements.
- Establish manuals and guides (that is, intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements.
- Assign personnel to manage and monitor compliance with relevant ethical requirements (for example, SQMS No. 1 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be

²⁷ Paragraphs .16 and .A15–.A21 of AU-C section 200.

independent) or provide consultation on matters related to relevant ethical requirements.

- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to
 - communicate information about client engagements and the scope of services, including nonassurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
 - communicate circumstances and relationships that may create a threat to independence so that the firm can evaluate whether such a threat is at an acceptable level and, if it is not, address the threat by eliminating it or reducing it to an acceptable level.
 - promptly communicate any breaches of the relevant ethical requirements, including those related to independence.

A41. The engagement partner may take into account the information, communication, and resources described in paragraph A40 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.

A42. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in

- drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement, and
- keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 17–18)

A43. In accordance with SQMS No. 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.

A44. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the “General Requirements for Performing Nonattest Services” interpretation (ET sec. 1.295.040) of the “Independence Rule” in the AICPA code provides guidance regarding safeguards for reducing threats to independence to an acceptable level when performing nonattest services for an attest client.

Breaches of Relevant Ethical Requirements (Ref: par. 19)

A45. In accordance with SQMS No. 1, the firm is required to establish policies or procedures for identifying, communicating, evaluating, and reporting any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.

Taking Appropriate Action (Ref: par. 20)

A46. Examples of appropriate actions may include the following:

- Following the firm’s policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor’s Report (Ref: par. 21)

A47. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, requires that the auditor’s report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and that the auditor has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.²⁸ Performing the procedures required by paragraphs 16–21 of this SAS provides the basis for these statements in the auditor’s report.

Considerations Specific to Governmental Audit Organizations

A48. Law or regulation may provide safeguards for the independence of governmental audit organizations and the auditors they employ. However, in the absence of law or regulation, governmental audit organizations may establish supplemental safeguards to assist the auditor or audit organization in maintaining independence. Additionally, when law or regulation does not

²⁸ Paragraph .28c of AU-C section 700.

permit withdrawal from the engagement, the auditor may disclose in the auditor's report the circumstances affecting the auditor's independence.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: par. 22–24)

A49. SQMS No. 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

A50. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management, and those charged with governance of the entity
- Whether sufficient and appropriate resources are available to perform the engagement
- Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement
- Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement
- Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement

A51. Under SQMS No. 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A52. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this SAS and making informed decisions about appropriate courses of action. Such information may include the following:

- Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework
- The entity's timetable for reporting, such as at interim and final stages
- In relation to group audits, the nature of the control relationships between the parent and its components

- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed

A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other AU-C sections, as well as this SAS, for example, with respect to the following:

- Establishing an understanding of the terms of the audit engagement, as required by AU-C section 210, *Terms of Engagement*²⁹
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with AU-C section 315 and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*
- Understanding the group, its components, and their environments, in the case of an audit of group financial statements in accordance with AU-C section 600, and directing, supervising, and reviewing the work of component auditors
- Determining whether, and how, to involve an auditor's specialist in accordance with AU-C section 620
- The entity's governance structure in accordance with AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, and AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*

A55. Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected noncompliance with laws and regulations to the proposed successor auditor.

A56. In circumstances in which the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

A57. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (for example, the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that the matter has been appropriately resolved, the firm's policies or procedures for resolving differences of opinion may be applicable.

Considerations Specific to Governmental Audit Organizations (Ref: par. 22–24)

A58. When the auditor is a government audit organization, the auditor may be appointed in accordance with law or regulation, and the auditor may not need to establish all policies or

²⁹ Paragraph .09 of AU-C section 210, *Terms of Engagement*.

procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 22–24 and A49–A57 may be valuable to such auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: par. 25–28)

A59. Under SQMS No. 1, the resources assigned or made available by the firm to support the performance of audit engagements include

- human resources,
- technological resources, and
- intellectual resources.

A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances in which the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation, or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.³⁰ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A61. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

A62. Human resources include members of the engagement team (see also paragraphs A5 and A15–A21) and, when applicable, an auditor's external specialist and individuals from within the entity's internal audit function who provide direct assistance on the audit.

Technological Resources

A63. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological resources may include tools that allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional skepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of technological resources may, however, increase the risk of overreliance on the

³⁰ See paragraph .03 of AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*.

information produced for decision-making purposes or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

A64. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm-approved technological tools to perform audit procedures and may require, depending on the tool used, the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.

A65. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team's instructions.

A66. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (for example, software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm approved to determine it is appropriate for use, for example, by requiring

- the engagement team to have appropriate competence and capabilities to use the technological resource.
- testing of the operation and security of the IT application.
- specific documentation to be included in the audit file.

A67. The engagement partner may exercise professional judgment in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application that has not been specifically approved for use by the firm is appropriate for use in the audit engagement include whether

- use and security of the IT application comply with the firm's policies or procedures.
- the IT application operates as intended.
- personnel have the competence and capabilities required to use the IT application.

Intellectual Resources

A68. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.

A69. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. 25)

A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation, and maintenance programs when using firm-approved technology to perform audit procedures.

A71. The engagement partner may find it necessary to seek input from others with responsibilities for direction, supervision, and review to make the determinations required by paragraphs 25–27 of this SAS.

Competence and Capabilities of the Engagement Team (Ref: par. 26)

A72. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's

- understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- expertise in specialized areas of accounting or auditing.
- expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
- knowledge of relevant industries in which the entity being audited operates.
- ability to exercise professional skepticism and professional judgment.
- understanding of the firm's policies or procedures.

A73. Internal auditors and an auditor's external specialist are not members of the engagement team. AU-C section 610³¹ and AU-C section 620³² include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external specialist, respectively.

Project Management

A74. In situations in which there are many engagement team members, for example, in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A75. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example,

³¹ Paragraph .13 of AU-C section 610.

³² Paragraph .09 of AU-C section 620.

- increasing the engagement team's ability to exercise professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism.
- facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise.
- monitoring the progress of the audit against the audit plan,³³ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources.
- facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's specialists.

Insufficient or Inappropriate Resources (Ref: par. 27)

A76. SQMS No. 1 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognizes and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. SQMS No. 1 also addresses the firm's responsibilities for planning for resource needs and obtaining, allocating, or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

A77. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management, or the firm to make sufficient and appropriate resources available.

A78. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this SAS and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39c. For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

³³ See paragraph .09 of AU-C section 300.

A79. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:

- Changing the planned approach to the nature, timing, and extent of direction, supervision, and review (see also paragraph A95)
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation

Considerations Specific to Audits of Governmental Entities (Ref: par. 25–28)

A80. For audits of governmental entities, competence may include skills that are necessary to comply with applicable law or regulation, such as knowledge of *Government Auditing Standards* and an understanding of the applicable reporting requirements, including reporting to the legislature or other governing body or reporting in the public interest. The scope of a governmental audit may include, for example, additional requirements with respect to detecting misstatements that result from violations of provisions of contracts or grant agreements that could have a direct and material effect on the determination of financial statement amounts or the need to examine and report on internal control over financial reporting or compliance.

Engagement Performance

Scalability (Ref: par. 29)

A81. When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing, and extent of direction, supervision, and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

Direction, Supervision, and Review (Ref: par. 30)

A82. Under SQMS No. 1, the firm is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. SQMS No. 1 also requires that such direction, supervision, and review be planned and performed on the basis that the work performed by less experienced members of the engagement team be directed, supervised, and reviewed by more experienced engagement team members.

A83. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which

the nature, timing, and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision, and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement-specific responses.

A84. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this SAS and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.

A85. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision, and review in accordance with paragraph 30.

Direction

A86. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as the following:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication, and actions
- Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in maintaining professional skepticism when gathering and evaluating audit evidence (see paragraph A35)
- Fulfilling relevant ethical requirements
- The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement
- The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise, and review the work of less experienced engagement team members
- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing, and extent of planned audit procedures as set forth in the overall audit strategy and audit plan
- Addressing threats to the achievement of quality, and the engagement team's expected response, for example, the threat that budget constraints or resource constraints result in the engagement team members inappropriately modifying planned audit procedures or failing to perform planned audit procedures

Supervision

A87. Supervision may include matters such as the following:

- Tracking the progress of the audit engagement, which includes monitoring
 - the progress against the audit plan,
 - whether the objective of work performed has been achieved, and

- the ongoing adequacy of assigned resources
- Taking appropriate action to address issues arising during the engagement, including, for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies
- Creating an environment where engagement team members raise concerns without fear of reprisals

Review

A88. Review of the engagement team's work provides support for the conclusion that the requirements of this SAS have been addressed.

A89. Review of the engagement team's work consists of consideration of whether, for example,

- the work has been performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements;
- significant matters have been raised for further consideration;
- appropriate consultations have taken place, and the resulting conclusions have been documented and implemented;
- there is a need to revise the nature, timing, and extent of work performed;
- the work performed supports the conclusions reached and is appropriately documented;
- the evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
- the objectives of the audit procedures have been achieved.

A90. The firm's policies or procedures may contain specific requirements regarding

- the nature, timing, and extent of review of audit documentation;
- different types of review that may be appropriate in different situations (for example, review of each individual working paper or selected working papers); and
- which members of the engagement team are required to perform the different types of review.

The Engagement Partner's Review (Ref: par. 30–34)

A91. As required by AU-C section 300, the engagement partner reviews the overall audit strategy and audit plan.³⁴ As required by AU-C section 230, the engagement partner documents the date and extent of the review.³⁵

A92. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation. The engagement partner exercises professional judgment in determining the extent of documentation to be reviewed, for example, when determining the nature and extent of the review of component auditor documentation in a group audit.

A93. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team. Examples follow:

- Matters related to planning the engagement, such as matters related to determining materiality
 - The composition of the engagement team, including
 - personnel using expertise in a specialized area of accounting or auditing
 - the use of personnel from service delivery centers
 - The decision to involve an auditor's specialist, including the decision to involve an external specialist
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information
- The engagement team's risk assessment process, including situations in which consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team
- The engagement team's consideration of related party relationships and transactions and disclosures
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions concerning certain accounting estimates, accounting policies, or going concern considerations
- The engagement team's evaluation of the work performed by specialists and conclusions drawn therefrom
- In group audit situations,

³⁴ Paragraph .11 of AU-C section 300, as amended by this SAS.

³⁵ Paragraph .09c of AU-C section 230.

- the proposed overall group audit strategy and group audit plan;
 - decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
 - the evaluation of work performed by component auditors and the conclusions drawn therefrom
- How matters affecting the overall audit strategy and audit plan have been addressed
 - The significance and disposition of corrected and uncorrected misstatements identified during the engagement
 - The proposed audit opinion and matters to be communicated in the auditor’s report, for example, key audit matters, or a “Material Uncertainty Related to Going Concern” paragraph

A94. The engagement partner exercises professional judgment in determining other matters to review, for example, based on

- the nature and circumstances of the audit engagement.
- which engagement team member performed the work.
- matters relating to recent inspection findings.
- the requirements of the firm’s policies or procedures.

Nature, Timing, and Extent

A95. The nature, timing, and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm’s policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm’s policies or procedures may include the following:

- Work planned to be performed at an interim date is to be directed, supervised, and reviewed at the same time as the performance of the procedures, rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner, and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

Scalability

A96. The following are examples of factors that may influence the firm’s approach to direction, supervision, and review:

- The engagement team member’s previous experience with the entity and the area to be audited. For example, if the work related to the entity’s information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less, and the review of the related working papers may be less detailed.

- The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater, and the review of the related working papers may be more detailed.
- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.
- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centers and the review of their work may
 - be more formalized and structured than when members of the engagement team are all situated in the same location or
 - use IT to facilitate the communication between the members of the engagement team.

A97. Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing, or extent of direction, supervision, or review. For example, if the assessed risk of material misstatement at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

A98. In accordance with paragraph 30*b*, the engagement partner is required to determine that the approach to direction, supervision, and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged With Governance, or Regulatory Authorities (Ref: par. 34)

A99. The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: par. 35)

A100. SQMS No. 1 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented.

Consultation may be appropriate or required, for example, for

- issues that are complex or unfamiliar (for example, issues related to an accounting estimate with a high degree of estimation uncertainty),
- significant risks,
- significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual,
- limitations imposed by management, and
- noncompliance with laws or regulations.

A101. Effective consultation on significant technical, ethical, and other matters within the firm or, where applicable, outside the firm, may be achieved when those consulted

- are given all the relevant facts that will enable them to provide informed advice and
- have appropriate knowledge, seniority, and experience.

A102. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, in areas where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.

A103. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.³⁶

Engagement Quality Review (Ref: par. 36)

A104. SQMS No. 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with SQMS No. 2, *Engagement Quality Reviews*,³⁷ and requiring an engagement quality review for certain types of engagements.³⁸ SQMS No. 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: par. 36d)

A105. AU-C section 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.³⁹ If applicable to the audit engagement, SQMS No. 2 and this

³⁶ Paragraphs .09 and .A13b of AU-C section 701.

³⁷ SQMS No. 2, *Engagement Quality Reviews*.

³⁸ Paragraph 35f of SQMS No. 1.

³⁹ Paragraph .43 of AU-C section 700.

SAS require that the engagement partner be precluded from releasing the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgments made by the engagement team or that the conclusions reached thereon were not appropriate, then the engagement quality review is not complete.⁴⁰

A106. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

A107. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

Differences of Opinion (Ref: par. 37–38)

A108. SQMS No. 1 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management. SQMS No. 1 also requires that differences of opinion be brought to the attention of the firm and resolved. For example, a component auditor may be instructed to communicate differences of opinion to the group engagement team.

A109. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example,

- seeking legal advice or
- withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Monitoring and Remediation (Ref: par. 39)

A110. SQMS No. 1 sets out requirements for the firm's monitoring and remediation process. SQMS No. 1 requires the firm to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities. Further, information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgment and maintaining professional skepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

A111. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or

⁴⁰ Paragraph 21b of SQMS No. 2.

other members of the engagement team, findings from the local firm office, or inspection results of previous audits of the entity.

A112. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that

- an auditor's specialist is needed or
- the nature, timing, and extent of direction, supervision, and review need to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.

A113. A deficiency in the firm's system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the auditor's report was not appropriate in the circumstances.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: par. 40)

A114. SQMS No. 1 requires the firm to establish a quality objective addressing the engagement team's understanding and fulfillment of their responsibilities in connection with the engagement. SQMS No. 1 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

A115. Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this SAS, given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner's involvement throughout the audit engagement, as described in paragraph A119.

A116. Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example, the following:

- Lack of timely review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and the design of responses to those risks toward the end of the audit
- Evidence that assignees were not provided necessary instructions and relevant information, such as not being adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned, and the objectives thereof

- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work

A117. If the engagement partner's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to taking into account firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example,

- updating and changing the audit plan,
- reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner, or
- consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: par. 41)

A118. In accordance with AU-C section 230,⁴¹ audit documentation provides evidence that the audit complies with GAAS. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (such as in a checklist) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A119. Documentation of the performance of the requirements of this SAS, including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. Examples follow:

- Direction of the engagement team can be documented through sign-offs of the audit plan and project management activities.
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency, and effectiveness of the engagement partner's communications and other actions regarding culture and expected behaviors that demonstrate the firm's commitment to quality.
- Agendas from discussions between the engagement partner and other members of the engagement team and, when applicable, the engagement quality reviewer, and related sign-offs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team.
- Sign-offs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A120. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional skepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains

⁴¹ Paragraph .A9 of AU-C section 230.

information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

A121. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of

- the nature and scope of the issue on which consultation was sought and
- the results of the consultation, including any decisions taken, the basis for those decisions, and how they were implemented.

A122.

Appendix — Amendments to Various Statements on Auditing Standards, as Amended, and Statement on Standards for Attestation Engagements No. 18, *Attestation Standards: Clarification and Recodification*, as Amended, Section 105, *Concepts Common to All Attestation Engagements*, in AICPA Professional Standards

Amendment to Statement on Auditing Standards (SAS) No. 117, *Compliance Audits*, as Amended

(***Boldface italics*** denote new language. Deleted text is in ~~strike through~~.)

AU-C Section 935, *Compliance Audits*

[No amendment to paragraphs .01–.A34.]

.A35 ~~Section 220, *Statement on Auditing Standards (SAS) No. 146, *Quality Control Management* for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*~~, requires that, on or before the date of the auditor’s report, the engagement partner **determine**, through a review of the audit documentation and discussion with the engagement team, ~~be satisfied~~ that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.^{fn 20} When an engagement quality ~~control~~ review is performed, ~~section 220 SAS No. 146~~ requires that the auditor’s report not be released ~~prior to~~ **until** the completion of the engagement quality ~~control~~ review.^{fn 21}

^{fn 20} ~~See paragraph Paragraph 1932 of section 220, SAS No. 146, *Quality Control Management* for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, for further discussion.~~

^{fn 21} Paragraph ~~2136d~~ of ~~section 220~~ SAS No. 146.

[No further amendment to AU-C section 935.]

1. This amendment is effective for compliance audits for fiscal periods ending on or after December 15, 2025.

Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended

(***Boldface italics*** denote new language. Deleted text is in ~~strikethrough~~.)

AU-C Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards

[No amendment to paragraphs .01–.A19.]

.A20 ~~QC section 10~~ **Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality ~~Control~~ Management**, sets out the firm's responsibilities to ~~establish and maintain its~~ **design, implement, and operate a** system of quality control for audit engagements, and to establish policies and procedures designed to provide it **management that provides the firm** with reasonable assurance that the firm and its personnel **fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements. SQMS No. 1 requires the firm, as part of its system of quality management, to establish quality objectives that address the fulfillment of responsibilities in accordance** ~~comply~~ with relevant ethical requirements, including those ~~pertaining~~ **related** to independence.^{fn 7} ~~Section 220~~ **Statement on Auditing Standards (SAS) No. 146, Quality ~~Control~~ Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**, addresses the engagement partner's responsibilities regarding relevant ethical requirements, **including those related to independence**. These include ~~remaining alert for evidence of noncompliance with relevant ethical requirements by members of the engagement team, determining, in consultation with others in the firm as appropriate, the appropriate action if matters come to the engagement partner's attention, through the firm's system of quality control or otherwise, that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.~~^{fn 8} ~~Section 220~~ **SAS No. 146** recognizes that **also describes when** the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless the engagement partner determines that it is inappropriate to do so based on information provided by the firm or other parties **may depend on the firm's policies or procedures in managing and achieving quality at the engagement level.**^{fn 9}

^{fn 7} Paragraphs 21–2530 of ~~QC section 10~~ **Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality ~~Control~~ Management**.

^{fn 8} Paragraphs 416–4321 of ~~section 220~~ **Statement on Auditing Standards (SAS) No. 146, Quality ~~Control~~ Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**.

^{fn 9} **Paragraph A10 of SAS No. 146.**

[No amendment to paragraphs .A21–.A31. Subsequent footnotes are renumbered.]

.A32 Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit¹³) or **through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement** ~~firm's~~

~~quality control procedures for client acceptance or continuance.~~ In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by a specialist employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

^{fn 13} [Footnote omitted for purposes of this standard.]

[No further amendment to AU-C section 200.]

2. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 210, *Terms of Engagement*

[No amendment to paragraphs .01–.18.]

.A1 *Statement on Quality Management Standards No. 1, A Firm's System of Quality Management, addresses the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements.* The auditor's responsibilities regarding relevant ethical requirements, ***including those related to independence,*** in the context of the acceptance of an audit engagement, insofar as they are within the control of the auditor, are dealt with in ~~section 220~~ ***Statement on Auditing Standards No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards.*** This section addresses those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

[No further amendment to AU-C section 210.]

3. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 230, *Audit Documentation*

[No amendment to paragraphs .01–.02.]

.03 Audit documentation serves a number of additional purposes, including the following:

- Assisting the engagement team to plan and perform the audit
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ~~section 220~~ **Statement on Auditing Standards (SAS) No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**³
- Enabling the engagement team to demonstrate that it is accountable for its work by documenting the procedures performed, the audit evidence examined, and the conclusions reached
- Retaining a record of matters of continuing significance to future audits of the same entity
- Enabling the conduct of *engagement* quality control reviews, **other types of engagement reviews, and monitoring activities under the firm's system of quality management inspections in accordance with QC section 10, A Firm's System of Quality Control**
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory, or other requirements
- Assisting an auditor who reviews a predecessor auditor's audit documentation
- Assisting auditors to understand the work performed in the prior year as an aid in planning and performing the current engagement

³ Paragraphs ~~.17-.19~~ 29–33 of ~~section 220~~ **Statement on Auditing Standards (SAS) No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**.

[No amendment to paragraphs .04–.A8.]

.A9 Audit documentation provides evidence that the audit complies with GAAS. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed to the terms of the audit engagement with management or, when appropriate, those charged with governance.
- An auditor's report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances in accordance with GAAS.

- Regarding requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - For example, there may be no single way in which the auditor’s professional skepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor’s exercise of professional skepticism in accordance with GAAS. Such evidence may include specific procedures performed to corroborate management’s responses to the auditor’s inquiries.
 - Similarly, that the engagement partner has taken responsibility for the direction; *and* supervision, ~~and performance~~ of the *engagement team and review of their work*^{fn 6} ~~audit in compliance with GAAS~~ may be evidenced in a number of ways within the audit documentation. This may include documentation ~~of that evidences~~ the engagement partner’s *timely sufficient and appropriate* involvement in ~~aspects of the audit~~, such as participation in ~~the engagement team discussions. required by section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.~~^{fn 6}

^{fn 6} Paragraph 29 of SAS No. 146.

[No amendment to paragraphs .A10–.A14.]

.A15 ~~Section 220 SAS No. 146 contains requirements and guidance on the~~ requires the auditor to review the audit work performed through review of the audit documentation.^{fn 9} The requirement to document who reviewed the audit work performed and the extent of the review, in accordance with the firm’s policies and procedures addressing review responsibilities does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

^{fn 9} Paragraph 931 of ~~section 220~~ SAS No. 146.

[No amendment to paragraphs .A16–.A22.]

Matters Arising After the Date of the Auditor’s Report (Ref: par. .14)

.A23 Examples of rare circumstances in which the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor’s report include

- when, after the date of the auditor’s report, the auditor becomes aware of facts that existed at that date and which, if known at that date, might have caused the financial statements to be revised or the auditor to modify the opinion in the auditor’s report.^{fn 11}

- when the auditor concludes that procedures necessary at the time of the audit, in the circumstances then existing, were omitted from the audit of the financial information.^{fn 12}

The resulting changes to the audit documentation are reviewed in accordance with the firm's ~~quality control~~ procedures ~~as required by QC section 10~~ ***under its system of quality management***.

^{fns 11–12} [Footnotes omitted for purposes of this standard.]

Assembly and Retention of the Final Audit File (Ref: par. .16–.18)

.A24 Statutes, regulations, or the audit firm's ~~quality control~~ policies ***or procedures under its system of quality management*** may specify a period of time shorter than 60 days following the report release date in which this assembly process is to be completed.

[No amendment to paragraphs .A25–.A26.]

.A27 ~~Firms are required to establish policies and procedures for the retention of engagement documentation.~~^{fn 13} Statutes, regulations, or the audit firm's ~~quality control~~ policies ***or procedures under its system of quality management*** may specify a retention period longer than five years.

^{fn 13} ~~Paragraph .50 of QC section 10.~~

.A28 An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal~~ ***activities*** or external ~~parties~~ ***inspections***.

[No further amendment to AU-C section 230.]

4. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*

[No amendment to paragraphs .01–.A36.]

.A37 To the extent not already addressed by the requirements in paragraph .12a–f and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality ~~control~~ reviewer, if one has been appointed, ~~in accordance with section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.~~^{fn 14}

[No amendment to paragraphs .A38–.A50.]

.A51 Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter, the importance of the matter to those charged with governance, and the action expected to be taken by those charged with governance. The following are examples of the timing of communications for certain matters:

- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, as part of the terms of the engagement.
- It may be appropriate to communicate significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor in overcoming the difficulties or if the difficulties are likely to lead to a modified opinion.
- Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards.
- When section 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph .A21); the auditor may also have more frequent communications to further discuss such matters when communicating about significant audit findings.

The following are examples of matters for which communication with those charged with governance may be important prior to issuance of the auditor’s report:

- Uncorrected misstatements accumulated by the auditor and the effect that they may have, individually or in the aggregate, on the opinion in the auditor’s report, including possible implications with respect to future financial statements.
- Circumstances or relationships to which the auditor gave significant consideration relating to independence in reaching the conclusion that independence has not been impaired.
- Significant findings or issues from the audit, including the auditor’s views about the qualitative aspects of the entity’s accounting practices.
- An expectation by the auditor that the opinion in the auditor’s report will be modified in accordance with section 705, *Modifications to the Opinion in the Independent Auditor’s Report*.^{fn16}

- When section 701 applies, the matters planned to be included in the auditor's report. ***SAS No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, requires the engagement partner, prior to dating the auditor's report, to review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.***¹⁷

¹⁶ Paragraph .31 of section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

¹⁷ ***Paragraph 33 of SAS No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards.***

[Subsequent footnotes are renumbered.]

[No further amendment to AU-C section 260.]

5. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 300, *Planning an Audit*

Introduction

Scope of This Section

[No amendment to paragraph .01.]

~~The Role and Timing of Planning~~

.02 Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. ~~Adequate~~ ***Quality management at the engagement level in accordance with Statement on Auditing Standards (SAS) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, in conjunction with adequate*** planning ***in accordance with this section***, benefits the audit of financial statements in several ways, including the following:

- Helping the auditor identify and devote appropriate attention to important areas of the audit
- Helping the auditor identify and resolve potential problems on a timely basis
- Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner

- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks and allocating team member responsibilities
- Facilitating the direction and supervision of engagement team members and the review of their work
- Assisting, when applicable, in coordination of work done by auditors of components and specialists

[No amendment to paragraphs .03–.05.]

Preliminary Engagement Activities

.06 The auditor should undertake the following activities at the beginning of the current audit engagement:

- a. Performing procedures required by ~~section 220~~, **SAS No. 146** regarding the ***acceptance and*** continuance of the client relationship and the ~~specific~~ audit engagement;
- b. Evaluating compliance with relevant ethical requirements in accordance with ~~section 220~~, **SAS No. 146**
- c. Establishing an understanding of the terms of the engagement, as required by section 210, *Terms of Engagement*; (Ref: par. .A6–.A8)

[No amendment to paragraph .07.]

Planning Activities

.08 In establishing the overall audit strategy, the auditor should ***consider the information obtained from complying with the requirements of SAS No. 146 and***

- a. identify the characteristics of the engagement that define its scope;
- b. ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- c. consider the factors that, in the auditor’s professional judgment, are significant in directing the engagement team’s efforts;
- d. consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- e. ascertain the nature, timing, and extent of resources necessary to perform the engagement. (Ref: par. .A9–.A13)

.09 The auditor should develop an audit plan that includes a description of the following:

- a. *The nature, timing, and extent of the planned direction and supervision of engagement team members and the review of their work (Ref: par. ~~A18-A19~~.A14-.A15)*
- b. ~~a.~~ The nature and extent of planned risk assessment procedures, as determined under section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- c. ~~b.~~ The nature, timing, and extent of planned further audit procedures at the relevant assertion level, as determined under section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- d. ~~c.~~ Other planned audit procedures that are required to be carried out so that the engagement complies with generally accepted auditing standards (Ref: par. ~~A14-A16~~.A16-.A18)

[No amendment to paragraph .10.]

.11 The auditor *engagement partner* should ~~plan the nature, timing, and extent of direction and supervision of engagement team members and the review of their work~~ **review the overall audit strategy and audit plan.** (Ref: par. ~~A18-A19~~)

[No amendment to paragraphs .12-.13.]

Documentation

.14 The auditor should include in the audit documentation the following:^{fn 3}

- a. The overall audit strategy
- b. The audit plan
- c. Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, **including any significant changes to the nature, timing, and extent of the planned direction and supervision of engagement team members and the review of their work,**^{fn 4} and the reasons for such changes. (Ref: par. .A23-.A26)

^{fn 3} [Footnote omitted for purposes of this standard.]

^{fn 4} *Paragraphs 30 and A93-A94 of SAS No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards.*

Application and Other Explanatory Material

.A1 *SAS No. 146 addresses the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of SAS No. 146 is relevant to this section. For example, in accordance with SAS*

No. 146, the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, taking into account the nature and circumstances of the audit engagement. Such a determination is directly relevant when ascertaining the nature, timing, and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph .08 of this section.

The Role and Timing of Planning (Ref: par. .01)

~~A1.~~**A2** The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. *In planning the audit, the auditor may use project management techniques and tools. SAS No. 146^{fn 5} describes how such techniques and tools may support the engagement team in managing the quality of the engagement.*

^{fn 5} Paragraphs A73–A74 of SAS No. 146.

[Subsequent footnotes are renumbered.]

[No amendment to paragraph .A2, renumbered as paragraph .A3.]

~~A3.~~**A4** The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit *help the auditor manage and achieve quality at the engagement level* (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

[No amendment to paragraphs .A4–.A5, renumbered as paragraphs .A5–.A6.]

Preliminary Engagement Activities (Ref: par. .06)

.A67 Performing the preliminary engagement activities, which are specified in paragraph .06, at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~ *manage and achieve quality at the engagement level in accordance with SAS No. 146.*

~~A7.~~**A8** Performing these preliminary engagement activities enables the auditor to plan an audit engagement ~~for which to~~, for example,

- ~~the auditor maintains~~ *maintain* the necessary independence and ability to perform the engagement.
- *determine that* the auditor has no issues with management integrity that may affect the auditor's willingness to continue the engagement.

- *determine that there is the auditor has no misunderstanding between the auditor and with the entity about the terms of the engagement.*

~~.A8A9~~ The auditor's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the audit engagement as conditions and changes in circumstances occur. Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often begin shortly after (or in connection with) the completion of the previous audit.

Planning Activities

The Overall Audit Strategy (Ref: par. .07–.08)

~~.A9A10~~ The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, *may include* such matters as the following:

- The *nature of* resources (*human, technological, or intellectual*) to ~~deploy~~ *be deployed* for specific audit areas, ~~such as~~ *for example*, the ~~use~~ *deployment* of appropriately experienced team members for high-risk areas or the ~~involvement~~ *assignment* of specialists ~~on~~ *to address* complex matters
- The amount of resources to ~~allocate~~ *be allocated* to specific audit areas, ~~such as~~ *for example*, the number of team members assigned to ~~observe~~ *attend* the *physical* inventory count at ~~material~~ *multiple* locations, the extent of review of component auditors' work in the case of group audits, or the audit budget (in hours) to allocate to high-risk areas
- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates
- How such resources are ~~managed~~, directed, and supervised, ~~such as~~ *or used*, *for example*, when team briefing and debriefing meetings are expected to be held, how the engagement partner and manager reviews are expected to take place (for example, on-site or off-site), ~~and whether to complete engagement quality control reviews~~

.A11 SAS No. 146 contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).

[No amendment to paragraphs .A10–.A17, renumbered as paragraphs .A12–.A19.]

Direction, Supervision, and Review (Ref: par. .11)

~~.A18A20~~ *SAS No. 146 addresses the engagement partner's responsibility for the* The nature, timing, and extent of the direction and supervision of engagement team members and review of their work. ~~fn 10 vary, depending on many factors, including the following:~~

- ~~The size and complexity of the entity~~

- ~~The area of the audit~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members and a more detailed review of their work)~~
- ~~The capabilities and competence of the individual team members performing the audit work~~

~~Section 220 contains further guidance on the direction, supervision, and review of audit work.~~

^{fn 10} *Paragraphs 29–31 of SAS No. 146.*

[Subsequent footnotes are renumbered.]

Considerations Specific to Smaller, Less Complex Entities **Scalability**

.A19A21 If an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Forming an objective view on the appropriateness of the judgments made in the course of the audit can present practical problems when the same individual also performs the entire audit. If particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably experienced auditors or the auditor's professional body.

[No amendment to paragraphs .A20–.A21, renumbered as paragraphs .A22–.A23.]

Additional Considerations in Initial Audit Engagements (Ref: par. .13)

.A22A24 The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Arrangements to be made with the predecessor auditor (for example, to review the predecessor auditor's working papers [see section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*]) ^{fn 8}
- Any major issues (including the application of accounting principles or auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance, and how these matters affect the overall audit strategy and audit plan
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances (see section 510) ^{fn 9}
- Other procedures required **responses designed and implemented** by the firm's system of quality control **firm** for initial audit engagements (For example, the firm's system of quality control **management** may **include responses that** require

~~the involvement of another partner or senior individual~~ **with appropriate authority** to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance.)

fns 8–9 [Footnotes renumbered as 11 and 12, and omitted for purposes of this exposure draft.]

Documentation (Ref: par. .14)

~~.A23.~~**A25** The documentation of the overall audit strategy is a record of the key decisions ~~considered necessary to properly plan the audit~~ **in managing quality at the engagement level** and **a means to** communicate significant issues to the engagement team. For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing, and conduct of the audit.

.A26 Documentation of the direction and supervision of engagement team members and the review of their work in accordance with SAS No. 146 may also provide a record of significant changes to the planned nature, timing, and extent of the direction, supervision, and review.

[No amendment to paragraphs .A24–.A26, renumbered as paragraphs .A27–.A29.]

Appendix — Considerations in Establishing the Overall Audit Strategy Managing Quality at the Engagement Level (Ref: par. .07–.08 and .A9–.A12)

~~.A27.~~A30

This appendix provides examples of matters the auditor may consider in ~~establishing the overall audit strategy~~ **managing quality at the engagement level**. Many of these matters also will influence the auditor's **overall audit strategy and** detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. Although some of the following matters may be required by other AU-C sections, not all matters are relevant to every audit engagement, and the list is not necessarily complete.

...

Nature, Timing, and Extent of Resources

The following examples illustrate the nature, timing, and extent of resources:

- The ~~selection~~ **human, technological, and intellectual resources assigned or made available to the engagement (for example, assignment** of the engagement team ~~(including, when necessary, the engagement quality control reviewer [see section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*])~~ and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas in which there may be higher risks of material misstatement
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas in which there may be higher risks of material misstatement

[No further amendment to AU-C section 300.]

6. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*

Introduction

Scope of This Section

[No amendment to paragraphs .01–.04.]

.05 In accordance with ~~section 220~~, *Statement on Auditing Standards (SAS) No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, the group engagement partner is required to ~~be satisfied~~ **determine** that those performing the group audit engagement, ~~including component auditors~~, collectively possess the appropriate competence and capabilities, **including sufficient time**.^{fn 1} **Those performing the group audit engagement include component auditors whose work the group auditor assumes responsibility for but not component auditors whose audits the group auditor makes reference to (see paragraph .08).** The group engagement partner also is responsible for the direction **and**, supervision **of members of the group engagement team** and ~~performance of the group audit engagement~~ **review of their work**.^{fn 2} In this section, requirements to be undertaken by the group engagement partner are addressed to the group engagement partner. When the group engagement team may assist the group engagement partner in fulfilling a requirement, the requirement is addressed to the group engagement team. When it may be appropriate in the circumstances for the firm to fulfill a requirement, the requirement is addressed to the auditor of the group financial statements.

^{fn 1} Paragraphs ~~425–26~~ of ~~section 220~~, *Statement on Auditing Standards (SAS) No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

^{fn 2} *Paragraphs 29–31 of SAS No. 146.*

[Subsequent footnotes are renumbered.]

[No further amendment to AU-C section 600.]

7. This amendment is effective for audits of group financial statements for periods beginning on or after December 15, 2025.

AU-C Section 620, *Using the Work of an Auditor’s Specialist*

[No amendment to paragraphs .01–.07.]

.08 The nature, timing, and extent of the auditor’s procedures with respect to the requirements in paragraphs .09–.13 will vary depending on the circumstances. In determining the nature, timing, and extent of those procedures, the auditor should consider matters including (Ref: par. .A11)

- a. the nature of the matter to which the work of the auditor’s specialist relates;
- b. the risks of material misstatement in the matter to which the work of the auditor’s specialist relates;
- c. the significance of the work of the auditor’s specialist in the context of the audit;
- d. the auditor’s knowledge of, and experience with, previous work performed by the auditor’s specialist; and
- e. whether the auditor’s specialist is subject to the auditor’s firm’s **system of quality management** ~~control policies and procedures~~. (Ref: par. .A12–.A14)

[No amendment to paragraphs .09–.A6.]

.A7 If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required by ~~section 220~~ **Statement on Auditing Standards (SAS) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**, to ~~be satisfied~~ **determine** that the engagement team and any external auditor’s specialists who are not part of the engagement team, collectively, have the appropriate competence and capabilities, **including sufficient time**, to perform the audit engagement.^{fn 6} Further, the auditor is required by section 300 to ascertain the nature, timing, and extent of resources necessary to perform the engagement.^{fn 7} The auditor’s determination of whether to use the work of an auditor’s specialist, and, if so, when and to what extent, assists the auditor in meeting these requirements. As the audit progresses or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor’s specialist.

^{fn 6} Paragraph ~~426~~ of ~~section 220~~ **Statement on Auditing Standards (SAS) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**.

^{fn 7} [Footnote omitted for purposes of this standard.]

[No amendment to paragraphs .A8–.A10.]

.A11 The following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor’s specialist relates to a significant finding or issue that involves subjective and complex judgments.

- The auditor has not previously used the work of the auditor's specialist and has no prior knowledge of that specialist's competence, capabilities, and objectivity.
- The auditor's specialist is performing procedures that are integral to the audit rather than being consulted to provide advice on an individual matter.
- The specialist is an auditor's external specialist and is not, therefore, subject to the firm's *system of quality management* ~~control policies and procedures~~.

The Auditor's Firm's System of Quality ~~Control Policies and Procedures~~ Management (Ref: par. .08e)

.A12 An auditor's internal specialist may be a partner or staff, including temporary staff (*that is, personnel*), of the auditor's firm and, therefore, subject to the *system of quality control policies and procedures management* of that firm in accordance with QC section 10, *Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality ~~Control Management~~*.^{fn 10} An auditor's internal specialist also may be a partner or staff, including temporary staff, of a network firm, *and is subject to the firm's policies or procedures for network requirements and network services in accordance with SQMS No. 1. In some instances, the auditor's internal specialist of a network firm may be subject to which may share common quality ~~control management~~ policies and or procedures with as the auditor's firm, given that they are part of the same network.*

^{fn 10} Paragraph 1317 of *Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality Management*.

.A13 ~~In accordance with As described in section 220 SAS No. 146, quality management at the engagement teams are entitled to rely on the firm's system of quality control unless the engagement partner determines that it is inappropriate to do so based on information provided by the firm or other parties.~~^{fn 11} *The extent of that reliance will vary with the circumstances and may affect the nature, timing, and extent of the auditor's level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement.*^{fn 12} *For example, the auditor may be able to depend on the firm's related policies or procedures with respect to such matters as the following:*

- Competence and capabilities through recruitment and training programs.
- Objectivity. The auditor's internal specialists are subject to relevant ethical requirements, including those ~~pertaining~~ *relating* to independence.
- Agreement with the auditor's specialist.
- The auditor's evaluation of the adequacy of the work of the auditor's specialist. For example, the firm's training programs may provide the auditor's internal specialists with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training ~~and other firm~~

~~processes, such as protocols for scoping the work of the auditor's internal specialists, may affect the nature, timing, and extent of the auditor's procedures to evaluate the adequacy of the work of the auditor's specialist.~~

- Adherence to regulatory and legal requirements through monitoring processes.

~~Such reliance~~ ***Matters that the auditor may take into account when determining whether to depend on the firm's policies or procedures are described in SAS No. 146.^{fn13} Depending on the firm's policies or procedures*** does not reduce the auditor's responsibility to meet the requirements of this section.

~~^{fn 11} Paragraph .05 of section 220.~~

^{fn 12} ***Paragraph A4 of SAS No. 146.***

^{fn 13} ***Paragraphs 4b and A10 of SAS No. 146.***

.A14 ***SQMS No. 1 requires the firm to address the use of resources from a service provider, which includes the use of an external specialist.*** ^{fn14} An auditor's external specialist is not a member of the engagement team and is not subject to ~~quality control policies and procedures in accordance with QC section 10~~ ***the firm's policies or procedures under its system of quality management.*** ^{fn 15} ***Furthermore, the firm's policies or procedures for relevant ethical requirements may include policies or procedures that apply to the auditor's external specialist.***
^{fn 12 16}

^{fn 14} ***Paragraph 33 of SQMS No. 1.***

^{fn 15} ***Paragraph 17 of SQMS No. 1.***

^{fn 12 16} ~~Paragraph 1330b of QC section 10~~ ***SQMS No. 1.***

[Subsequent footnotes are renumbered.]

[No proposed amendment to paragraph .A15.]

.A16 Information regarding the competence, capabilities, and objectivity of an auditor's specialist may come from a variety of sources, such as the following:

- Personal experience with previous work of that specialist
- Discussions with that specialist
- Discussions with other auditors or others who are familiar with that specialist's work
- Knowledge of that specialist's qualifications, membership in a professional body or industry association, license to practice, or other forms of external recognition

- Published papers or books written by that specialist
- The **system of quality management** ~~control policies and procedures~~ of the auditor's firm and such other procedures the auditor considers necessary in the circumstances (see paragraphs .A12–.A13).

[No amendment to paragraphs .A17–.A28.]

.A29 When no written agreement exists between the auditor and the auditor's specialist, evidence of the agreement may be included in, for example,

- planning memoranda or related working papers, such as the audit program.
- the policies ~~and or~~ procedures of the auditor's firm's **system of quality management**. In the case of an auditor's internal specialist, the ~~established policies and procedures to which the auditor's specialist is subject~~ **firm's system of quality management** may include particular policies ~~and or~~ procedures regarding the work of the auditor's specialist. The extent of documentation in the auditor's working papers depends on the nature of such policies ~~and or~~ procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an auditor's specialist is used.

[No further amendment to AU-C section 620.]

8. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 930, *Interim Financial Information*

[No amendment to paragraphs .01–.A59.]

.A60 When an engagement quality ~~control~~ review is performed, ~~section 220, *Statement on Auditing Standards (SAS) No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*~~, requires that the **engagement partner not date the** auditor's report ~~not be released prior to~~ **until** the completion of the engagement quality ~~control~~ review.^{fn 27}

^{fn 27} Paragraph ~~2436d~~ of ~~section 220~~ ***Statement on Auditing Standards (SAS) No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***.

[No further amendment to AU-C section 930.]

9. This amendment is effective for reviews of interim financial information for interim periods of fiscal years beginning on or after December 15, 2025.

Amendment to SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, as Amended

(***Boldface italics*** denote new language. Deleted text is in ~~strikethrough~~.)

AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*

[No amendment to paragraphs .01–.A116.]

.A117 ~~Section 220, *Statement on Auditing Standards (SAS) No. 146, Quality Control Management* for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards~~, requires that, on or before the date of the auditor’s report, the engagement partner ***determine***, through a review of the audit documentation and discussion with the engagement team, ~~be satisfied~~ that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.^{fn 25} When an engagement quality ~~control~~ review is performed, ~~section 220 SAS No. 146~~ requires that the ***engagement partner not date the*** auditor’s report ~~not be released prior to~~ ***until*** the completion of the engagement quality ~~control~~ review.^{fn 26}

^{fn 25} ~~See paragraph Paragraph 1932 of section 220, SAS No. 146, *Quality Control Management* for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, for further discussion.~~

^{fn 26} Paragraph ~~2136d~~ of ~~section 220~~ ***SAS No. 146***.

[No further amendment to AU-C section 940.]

10. This amendment is effective for integrated audits for periods beginning on or after December 15, 2025.

Amendments to Various Sections in SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as Amended

(***Boldface italics*** denote new language. Deleted text is in ~~strikethrough~~.)

AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements*

[No amendment to paragraphs .01–.A38.]

.A39 Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA Code of Professional Conduct, when applicable; the rule or applicable regulation; or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those ~~pertain~~**relating** to independence, in a group audit situation may be complex. Section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, ^{fn 21} provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations in which the component auditor does not meet the independence requirements that are relevant to the group audit.

[No amendment to paragraphs .A40–.A53.]

.A54 *Statement on Auditing Standards (SAS) No. 146, ~~Section 220, Quality Control~~ Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, requires ***the following with regard to dating the auditor’s report:***

- ~~that, On~~ or before the date of the auditor’s report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, ***is required to be satisfied determine*** that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. ^{fn 26}
- ***Prior to dating the auditor’s report, the engagement partner is required to review the financial statements and the auditor’s report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.*** ^{fn 27}
- When an engagement quality ~~control~~ review is performed, ~~section 220~~ the ***engagement partner is precluded from releasing the*** auditor’s report ~~not be released prior to~~ ***until*** the completion of the engagement quality ~~control~~ review. ^{fn 278}

^{fn 26} ~~See paragraph Paragraph 1932 of section 220, SAS No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, for further discussion.~~

^{fn 27} ***Paragraph 33 of SAS No. 146.***

^{fn 2728} ~~Paragraph 2436d of section 220-SAS No. 146.~~

[No further amendment to AU-C section 700.]

11. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[No amendment to paragraphs .01–.A12.]

.A13 Certain AU-C sections, such as the following, require specific communications with those charged with governance and others that may relate to areas of significant auditor attention:

- a. Section 260, *The Auditor's Communication With Those Charged With Governance*, requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.^{fn 7} For example, there may be potential difficulties relating to the following:
 - i. *Related party transactions*. In particular, there may be limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's-length transaction.^{fn 8}
 - ii. *Limitations on the group audit*. For example, the group engagement team's access to information may be restricted.^{fn 9}

^{fns 7–9} [Footnotes omitted for purposes of this exposure draft.]

- b. ~~Section 220~~, ***Statement on Auditing Standards No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***, establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, ***matters on which the firm's policies or procedures require consultation, and other matters that, in the engagement partner's professional judgment, require consultation***.^{fn 10} For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters ***and significant judgments*** arising during the audit engagement with the engagement quality ~~control~~ reviewer.

^{fn 10} Paragraph 2035 of ~~section 220~~, ***SAS No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***.

[No amendment to paragraphs .A14–.A59.]

Communication With Those Charged With Governance (Ref: par. .16)

.A60 *SAS No. 146 requires the engagement partner, prior to dating the auditor's report, to*

review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.^{fn 19}

^{fn 19} Paragraph 33 of SAS No. 146.

[No amendment to paragraph .A60, renumbered as paragraph .A61.]

.A612 The requirement in paragraph .16b to communicate with those charged with governance when the auditor has determined that there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality ~~control~~ reviewer, when one has been appointed). These discussions may cause the auditor to reevaluate the auditor's determination that there are no key audit matters.

[No amendment to paragraph .A62, renumbered as .A63.]

12. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

Amendment to SAS No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as Amended

(Boldface italics denote new language. Deleted text is in strikethrough.)

AU-C Section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

[No amendment to paragraphs .01–.A118.]

Date of the Auditor's Report (Ref: par. .82 and .126)

.A119 SAS No. 146, Section 220, Quality ~~Control~~ Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, requires ***the following with regard to dating the auditor's report:***

- ~~that,~~ On or before the date of the auditor's report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, ***is required to be satisfied-determine*** that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.^{fn 44}
- ***Prior to dating the auditor's report, the engagement partner is required to review the financial statements and the auditor's report, including, if applicable, the description***

of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.^{fn 45}

- When an engagement quality ~~control~~ review is performed, ~~section 220~~ the ***engagement partner is precluded from releasing the*** auditor's report ~~not be released prior to~~ ***until*** the completion of the engagement quality ~~control~~ review.^{fn 4546}

^{fn 44} See ~~paragraph~~ ***Paragraph 1932*** of ~~section 220~~ ***SAS No. 146, Quality Control Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, for further discussion.***

^{fn 45} ***Paragraph 33 of SAS No. 146.***

^{fn 4546} ~~Paragraph 2436d of section 220~~ ***SAS No. 146.***

[No further amendment to AU-C section 703.]

13. This amendment is effective for audits of ERISA plan financial statements for periods beginning on or after December 15, 2025.

Amendment to SAS No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports, as Amended

(Boldface italics denote new language. Deleted text is in strikethrough.)

AU-C Section 720, Other Information Included in Annual Reports

[No amendment to paragraphs .01–.A26.]

.A27 In accordance with ~~section 220~~, ***Statement on Auditing Standards No. 146, Quality Control Management for an Engagement Performed in Accordance With Generally Accepted Auditing Standards,***^{fn 8} the engagement partner is required to take responsibility for the direction, ~~and supervision, and performance of the audit engagement~~ ***of the members of the engagement team and the review of their work, and determine that the nature, timing, and extent of direction, supervision, and review is planned and performed*** in compliance with ~~the~~ ***firm's policies or procedures,*** professional standards, and applicable legal and regulatory requirements.^{fn 8} In the context of this section, factors that may be considered when determining the appropriate engagement team members to address the requirements of paragraphs .16–.17 of this section include the following:

- The relative experience of engagement team members.

- Whether the engagement team members have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgment involved in addressing the requirements of paragraphs .16–.17 of this section. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

^{fn 8} Paragraphs ~~17a.29–30~~ of ~~section 220~~ **SAS No. 146, Quality Control Management for an Engagement Performed in Accordance With Generally Accepted Auditing Standards.**

[No further amendment to AU-C section 720.]

14. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

Amendment to SAS No. 142, *Audit Evidence*

Appendix B — Amendments to Various Sections in Statement on Auditing Standards No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended

.A68

...

AU-C Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards

.A27 Unconscious or conscious auditor biases may affect the auditor’s professional skepticism and professional judgment, including, for example, in the design and performance of audit procedures or the evaluation of audit evidence. Examples of unconscious auditor biases are provided in paragraph A35 of Statement on Auditing Standards No. 146, *Quality Management of an Audit Conducted in Accordance With Generally Accepted Auditing Standards*. ~~that may impede the maintenance of professional skepticism and, therefore, the reasonableness of the professional judgments made by the auditor in complying with the requirements of this section, may include the following:~~

- ~~Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not~~
- ~~Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief~~
- ~~Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions~~
- ~~Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed~~
- ~~Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions about whether such output is reliable or fit for purpose~~

[Paragraphs .A27–.A86 have been renumbered.]

15. This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2025.

Amendment to Statement on Standards for Attestation Engagements No. 18, *Attestation Standards: Clarification and Recodification*, as Amended, Section 105, Concepts Common to All Attestation Engagements

(***Boldface italics*** denote new language. Deleted text is in ~~strikethrough~~.)

AT-C Section 105, Concepts Common to All Attestation Engagements

[No amendment to paragraphs .01–.05.]

Relationship of Attestation Standards to Quality Control Standards

.06 Quality ~~control~~ **management** systems, policies, and procedures are the responsibility of the firm in conducting its attestation practice. Under ~~QC section 10~~ **Statement on Quality Management Standards No. 1, *A Firm's System of Quality Control Management***, the firm has an obligation to establish **design, implement, and maintain** ~~operate~~ a system of quality ~~control~~ **management** to ~~provide it that provides the firm~~ with reasonable assurance that ^{fn 5} (Ref: par. .A4–.A6)

- the firm and its personnel ~~comply~~ **fulfill their responsibilities in accordance** with professional standards and applicable legal and regulatory requirements **and conduct attestation engagements in accordance with such standards and requirements**, and

b. practitioners' reports issued by the firm are appropriate in the circumstances.

^{fn 5} Paragraph ~~1220~~ of ~~QC section 10~~, *Statement on Quality Management Standards No. 1, A Firm's System of Quality ~~Control~~ Management* (AICPA, *Professional Standards*).

.07 Attestation standards relate to the conduct of individual attestation engagements; quality ~~control~~ **management** standards relate to the conduct of a firm's attestation practice as a whole. Thus, attestation standards and quality ~~control~~ **management** standards are related, and the quality ~~control~~ **management** policies and procedures that ~~a the~~ firm ~~adopts~~ **establishes** may affect both the conduct of individual attestation engagements and the conduct of ~~a the~~ firm's attestation practice as a whole. However, deficiencies in or instances of noncompliance with ~~a the~~ firm's quality ~~control~~ **management** policies and procedures do not, in and of themselves, indicate that a particular engagement was not ~~performed~~ **conducted** in accordance with the attestation standards.

[No further amendment to AT-C section 105.]

16. This amendment is effective for practitioners' reports dated on or after December 15, 2025.