New Audit Report — SAS No. 134 to SAS No. 141

Eight new standards will affect audits of financial statements for periods ending on or after December 15, 2021. These standards are frequently referred to as the auditor reporting standards, but they affect a variety of auditing matters unrelated to the new auditors' report. Our CLA audit methodology has been updated to incorporate the new requirements. This resource is intended to provide a high-level overview of reporting changes and provide an example of the new unmodified opinion.

What?

In the future, all audit reports will look different.

- Present opinion section first, followed by the basis for the auditors' opinion.
- Enhance reporting related to going concern.
- Expand description of the auditors' responsibilities.

Why?

To address inconsistencies and improve transparency.

- Improve transparency and visibility of the roles and responsibilities of the auditor and the entity's management.
- Align more closely with international reporting.
- Increase consistency of reporting with listed entities.

When?

2021 calendar year-ends and thereafter.

- The auditor reporting standards are effective for audits of financial statements for periods ending on or after December 15, 2021.

How?

Format and wording changes.

- Change required format and wording.
- Introduce optional Key Audit Matters (KAM) reporting.

How will this change affect my audit?

- Reporting and communication with governance will change significantly.
- Additional procedures may be performed for related-party transactions.
- The phrase "significant unusual transactions" was introduced to audit literature which may require further consideration.

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Unmodified Opinion Paragraphs Post SAS No. 134 Adoption	Comments / Considerations	Unmodified Opinion Paragraphs Pre-SAS No. 134 Adoption
	Opening is included in the opinion section post SAS No. 134. Pre-SAS No. 134, it was included as an opening paragraph.	We have audited the accompanying financial statements of [Client Name] (a [State of Incorporation] corporation), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.
Opinion We have audited the financial statements of [Client Name] (a [State of Incorporation] corporation), which comprise the balance sheets as of [Date, e.g., December 31, 2021] and [Year, e.g., 2010], and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [Client Name] as of [Date, e.g., December 31, 2021] and [Year, e.g., 2020], and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.	SAS No. 134 requires the opinion paragraph to be included first followed by the basis of opinion. Prior to SAS No. 134, there was no requirement concerning the paragraph ordering of the audit report. In practice, most accounting firms included the opinion last.	See Last Paragraph
Basis for Opinion We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of [Client Name] and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.	Basis of opinion must follow the opinion under SAS No. 134. Similar wording was previously included in auditors' responsibility. In addition, the basis for opinion more clearly articulates the independence and other ethical responsibilities of the auditor.	
Key Audit Matters Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. [Description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditors' Report.]	New optional wording. Firms must be engaged to report Key Audit Matters (KAM). "Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance." Reporting KAM may enhance the communicative value of the auditors' report by providing greater transparency about the audit. Conversely, this additional narrative could create the unintended consequence to detract from the actual financial statements and related disclosure. In addition, this added reporting would result in an increased cost for the audit.	
Responsibilities of Management for the Financial Statements Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about [Client Name]'s ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].	SAS No. 134 added a requirement to describe management's responsibility for the evaluation of the entity's ability to continue as a going concern. The new sentence is included regardless of whether there is any doubt about the entity's ability to continue as a going concern.	***Management's Responsibility for the Financial Statements*** Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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Unmodified Opinion Paragraphs Post SAS No. 134 Adoption	Comments / Considerations	Unmodified Opinion Paragraphs Pre-SAS No. 134 Adoption
Auditors' Responsibilities for the Audit of the Financial Statements Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with GAAS, we: • Exercise professional judgment and maintain professional skepticism throughout the audit. • Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. • Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [Client Name]'s internal control. Accordingly, no such opinion is expressed. • Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements. • Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about [Client Name]'s ability to continue as a going concern for a reasonable period of time. We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.	Under SAS No. 134, wording has been revised to articulate the auditors' responsibility more clearly. These responsibilities are not new concepts to an audit and have always been dictated by GAAS. These matters include: • Expanded the description of the responsibilities of the auditor in relation to the audit, including those related to the use of professional judgement and the maintenance of professional skepticism, the evaluation of going concern, and required communications with those in charge of governance. • Defined the term reasonable assurance. • Expanded the wording related to fraud risk.	***Auditors' Responsibility*** Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
See First Paragraph	SAS No. 134 requires the opinion paragraph to be included first followed by the basis of opinion. Prior to SAS No. 134, there was no requirement concerning the paragraph ordering of the audit report. In practice, most accounting firms included the opinion last.	***Opinion*** In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Client Name] as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.