PacificCPE

COURSE
11401A

SAS 146-149: Updates in Auditing Standards

Stay current with the latest auditing standards affecting your practice. This course covers SAS Nos. 146 through 149, including quality management requirements for engagements under GAAS, predecessor auditor inquiries related to fraud, amendments to compliance audit standards, and special considerations for group financial statement audits. Whether you work with single-entity or complex multi-component engagements, understanding these standards is essential for maintaining compliance and delivering high-quality audit work in today's regulatory environment.

CREDIT HOURS 2 | FIELD OF STUDY AUDITING | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

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INTRODUCTION

This course addresses four recently issued auditing standards, SAS No. 146 to 149 as summarized in the following table:

All other amendments are effective for compliance audits for fiscal periods ending on or after December 15, 2023 (calendar year 2023)

	Standard		Effective Date
SAS No. 146: Quality Management for an		Audits conducted in accordance with GAAS for	
Engagement Conducted in Accordance with		periods beginning on or after December 15,	
Generally Accepted Auditing Standards		2025 (calendar year 2026)	
SAS No. 147: Inquiries of the Predecessor		Audits of financial statements for periods	
Auditor Regarding Fraud and Noncompliance with Laws and Regulations		beginning on or after June 30, 2023 (calendar year 2024)	
SAS No. 148: Amendment to AU-C Section 935		Portions are effective for compliance audits for fiscal periods ending on or after December 15, 2022 (calendar year 2022)	

SAS No. 149: Special Considerations- Audits of	Audits of group financial statements for
Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-	periods ending on or after December 15, 2026 (calendar year 2026)

to Auditors)**

SAS Nos. 146-149 are effective for 2022 through 2026 calendar year-end audits.

Following is a brief summary of each of the three standards:

- SAS No. 146, **Quality Management* for an **Engagement* Conducted *in Accordance With* Generally *Accepted Auditing Standards*: Offers expanded guidance on* quality* management in an audit engagement.
- SAS No. 147: **Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance** With Laws and Regulations: Clarifies the requirements and guidance related to the auditor's inquiries of a predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement.
- SAS No. 148: *Amendment to AU-C Section 935*: Amends AU-C 935, *Compliance Audits*, to reflect changes made by recently issued auditing standards.
- SAS No. 149: *Special Considerations- Audits of Group Financial* Statements**: Addresses special considerations that apply to a group audit, including circumstances in which component auditors are involved or when the group auditor makes reference to the audit of a referred-to auditor.

SAS NO. 146: QUALITY MANAGEMENT FOR AN ENGAGEMENT CONDUCTED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

Section Objectives

After completing this section, you should be able to:

- Recall the date by which an engagement partner must take responsibility for determining that ethical requirements are fulfilled.
- Identify certain requirements an engagement partner must satisfy in performing an audit engagement.
- Identify a type of unconscious bias defined in SAS No. 146.
- Recall a possible action that an engagement team may take to mitigate impediments to exercise professional skepticism.

Issued: June 2022 **Effective Date:** SAS No. 146 is effective for engagements conducted in accordance with GAAS for periods beginning on or after December 15, 2025.

I. OBJECTIVE OF SAS NO. 146

The objective of SAS No. 146 is to provide guidance on quality management of an audit engagement.

II. BACKGROUND

A. GENERAL

In June 2023, the Auditing Standards Board (ASB) and the Accounting and Review Services Committee issued four interrelated final standards on quality management (collectively, QM standards):

- Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality Management
- SQMS No. 2, Engagement Quality Reviews
- SAS No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards
- SSARS No. 26, Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services

SQMS Nos. 1 and 2, SAS No. 146, and SSARS No. 26 are collectively referred to as the "quality *management standards*."

The new Quality Management (QM) Standards affect all firms that perform accounting and auditing engagements under the SASs, SSAEs, and SSARSs, starting in 2025 and 2026. Collectively, the new standards do the following:

- Offer a new risk-based approach, incorporating a risk assessment process driving firms to focus on quality management tailored to their circumstances
- Provide revised components of the system of quality management — two new components, including information and communication
- Include more robust leadership and governance requirements
- Require enhanced monitoring and remediation processes, and
- Establish new requirements for networks and service providers.

The new QM standards affect every firm that performs engagements in accordance with the SASs, SSAEs, or SSARSs. Details of each of the standards follow:

Comparison of New QM Standards with Previous Standards

	Standard		What It Does
SQMS No. 1, A Firm's System of Quality Management, and		Replaces existing SQCS No. 8, A Firm's System of Quality Control (QC sec. 10)	
SQMS No. 2, Engagement Quality Reviews			
SSARS No. 26, Quality Management for an Engagement Conducted in Accordance with Statements on Standards for Accounting and Review Services		Amends the SSARSs to conform with SQMS Nos. 1 and 2 and to be consistent with the changes made by SAS No. 146	

SAS No. 146, Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards	Updates and supersedes AU-C 200, Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards, to conform with SQMS No. 1 and 2

	Summary of QM Standards	
New QM Standard		**What It Does**
SQMS No. 1: A Firm's System of Quality Management	Requires a firm to design, implement, and operate a system of quality management that is customized for the nature and circumstances of its accounting and auditing practice. It consists of:	

- Eight components that operate in an iterative and integrated manner.
- Other requirements that address the roles and responsibilities for the system, leadership's overall evaluation of the system,

network requirements or network services, and documentation.

SQMS No. 1 introduces a new risk-assessment process aimed at achieving quality objectives. The firm is required to establish prescribed quality objectives, assess quality risks, and design and implement responses.

SQMS No. 1 requires the firm leadership to annually evaluate and conclude whether the system of quality management is meeting its objectives.

Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management is required to be performed within one year following December 15, 2025. SQMS No. 2: Engagement Addresses the appointment and eligibility of the engagement quality Quality Reviews reviewer and performance of engagement quality reviews. SQMS No. 2 only applies when the firm decides that an engagement quality (EQ) review is an appropriate response to a quality risk.

SQMS No. 2 addresses the appointment and eligibility of the engagement quality reviewer and performance of engagement quality reviews.

Eligibility requirements for EQ reviewers include:

- Consider threats to objectivity but no cooling-off period required
- Sufficient time to perform the EQ review, and
- Permitted use of qualified external EQ reviewers and assistants.

Summary of QM Standards New QM Standard What It Does

Performance of EQ reviews involves:

- Focus on significant matters and significant judgments, and
- Involvement of EQ reviewer at appropriate points in time throughout engagement.

[INDENT1]

SQMS No. 2 is effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025. SAS No. 146, Quality SAS No. 146: Management for an

- Clarifies and strengthens the key elements of quality Engagement Conducted in management at the engagement level. Accordance With Generally
- Focuses on the important role of the engagement partner in Accepted Auditing managing and achieving quality on the audit engagement.

Standards

- Reinforces the importance of quality to all members of the engagement team.
- Encourages proactive management of quality at the engagement level by emphasizing the importance of the exercise of professional skepticism, enhancing the documentation of the auditor's judgments, and reinforcing the need for robust communications during the audit.
- Addresses how the engagement partner leverages the firm's system and manages quality at the engagement level.

[INDENT1]

SAS No. 146 makes clear that the engagement partner has overall responsibility for managing and achieving quality.

[INDENT1]