

■ ASSURANCE

The New Requirements of SAS 103

by Allan Larson and Chas McElroy

The accounting profession has issued a new audit standard ("Statement on Auditing Standards 103—Audit Documentation") that will require changes in how audits are planned, completed, and dated. If the audit is not issued within a couple weeks of when management approves the financial statements and signs the representation letter, more audit work on "subsequent events" will be required. This is likely to add time and cost to an audit.

Definition of "Subsequent Events"

Events or transactions that sometimes occur subsequent to the balance sheet date, but prior to the issuance of the financial statements, that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

LarsonAllen committed to re-engineering our audit process two years ago. Our commitment included implementing a paperless process so that all our financial

reporting and tax files could be electronically prepared. Currently, the majority of our workpapers are in an electronic format, and all hard copy documents are scanned and filed electronically. By the end of 2006, all our professionals will have been trained and will have the tools and equipment to be paperless. In offices where we have implemented the paperless process, many clients are changing their processes also so that the audit can be more efficient.

This summer and fall LarsonAllen will train our auditors on the new SAS 103 and discuss how it will affect our audit work. The combination of an efficient paperless environment and the new requirements of SAS 103 should result in closer collaboration between clients and auditors.

SAS 103 potentially adds time to an audit because it requires auditors to document procedure conclusions in our audit files. The most visible change is the new guidance on when to date the auditors' report. In the past, auditors dated their report after they finished their fieldwork and left the client's location. In the future, the auditors' report will be dated when the auditor has obtained sufficient audit evidence to support the opinion. According to SAS 103, sufficient audit evidence is defined as follows:

Appropriate audit evidence includes evidence that the audit documentation has been reviewed and that the entity's financial statements, including disclosures, have been prepared and that management has asserted that it has taken responsibility for them. This will ordinarily result in a report date that is close to the date the auditor grants the entity permission to use the auditors' report in connection with the financial statements. Delays in releasing the report may require the

This sample audit plan incorporates the quick release (auditors' report date) requirements of SAS 103.

1. Client and auditor schedule periodic meetings throughout the year to avoid year-end surprises.
2. Auditor issues an audit preparation letter to client that allows plenty of time for client to prepare.
3. Prior to year-end, client and auditor have a planning meeting to discuss audit and evaluate adjustments that must be made prior to year-end.
4. Client and auditor agree upon specific due dates for the auditor's report.
5. Confirmations are prepared and ready to be mailed at year-end.
6. Client emails preliminary trial balance at year-end and then a final balance at least one week before fieldwork.
7. Client identifies and posts all possible journal entries prior to providing auditors with the final trial balance used to prepare the first draft of the financial statements.
8. Client and auditor agree on a time frame that is sufficient to complete the majority of the audit work.
9. A principal reviews work in the field.
10. Management and the finance or audit committee hold an exit conference on the last day of fieldwork.
11. Auditors prepare a representation letter for signature as they leave the field.
12. Auditors conduct a quality review immediately after leaving the field.
13. The audit report is issued within two weeks of securing the final significant audit documentation.



auditor to perform additional procedures to comply with the requirements of SAS No. 1 “Subsequent Events.”

Auditors and clients will need to discuss the clients’ priorities, the audit preparation process, and the meetings needed to approve the financial statements. For some clients, the priority is to get the corporate tax return filed by the due date, and the audit is a secondary priority. In those situations, our auditors do fieldwork to make adjustments to the clients’ general ledger. We take a break to prepare and file the appropriate tax returns, then return to the field later to finalize audit documentation for completion and issuance of the audit.

It is critical that the client completes all the core required audit workpapers prior to the start of the audit fieldwork. Sometimes clients wait until the auditors arrive to work on these documents, which can hinder the audit. If all of the requested work is completed by the start of fieldwork, management and client staff can immediately address any additional issues that are identified during the fieldwork. This preparation, combined with effective meetings during the year, will help resolve all audit issues within the needed to issue the audit report in accordance with the new standard.

Clients that have the best results in preparing for and completing their audits view the audit favorably, as a type of continuous improvement process. These clients are open to periodic meetings during the year to discuss their business issues, participate in effective planning meetings prior to year-end, and have a clearly defined audit process and time frame for the fieldwork and issuance of the report. Our most efficient clients also have effective month-end closing procedures. If these procedures are in place and followed consistently, the probability of an efficient audit at year-end increases dramatically.

New standards require all of us to change our processes and procedures. By working closely with your auditors and proactively planning, you can transform change into an opportunity to increase efficiency.

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