

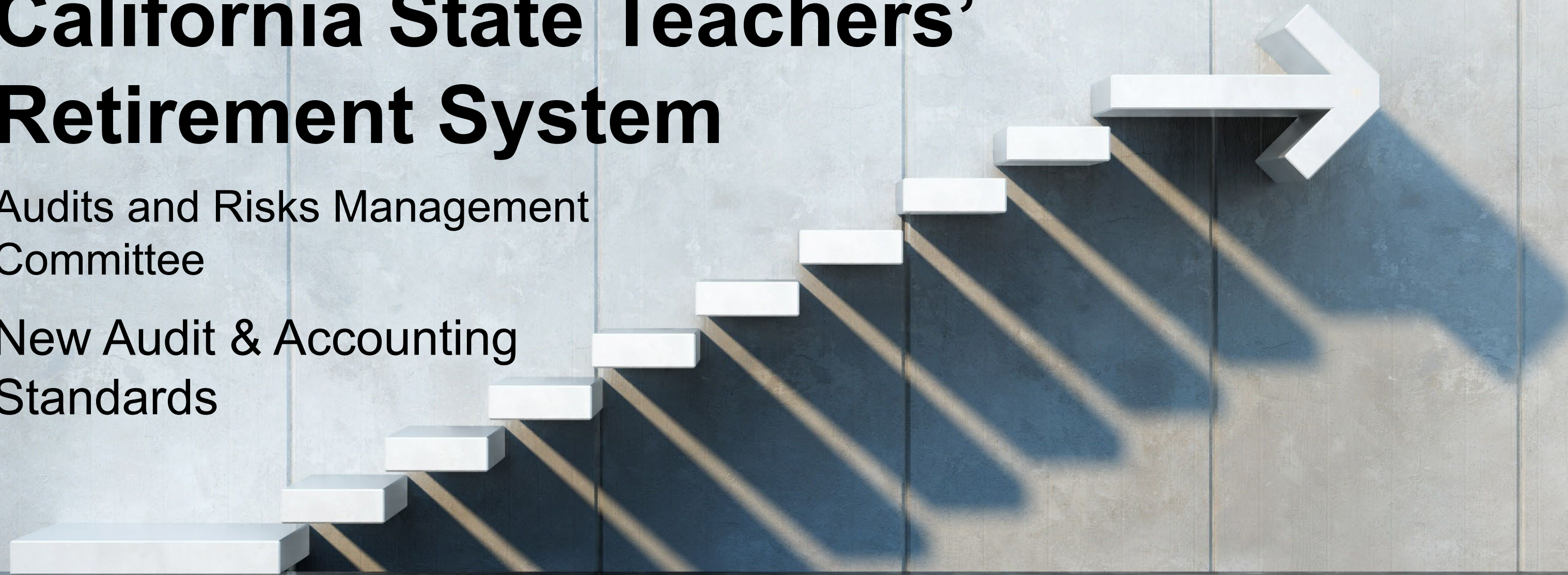


Smart decisions. Lasting value.™

# California State Teachers' Retirement System

Audits and Risks Management  
Committee

New Audit & Accounting  
Standards



March 4, 2022

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# Agenda

**1**

Updated independence standards

**2**

Newly effective auditing standards

**3**

Newly effective accounting standards

**4**

The future of auditing



# Updated Independence Standards

- Independence is defined in the AICPA Code of Professional Conduct, Section 1.200  
*Independence Rule*

*“A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by the Council.”*

- Numerous independence interpretations that auditor’s must follow that address particular relationships or circumstances
- Evaluate whether a reasonable and informed third party who is aware of the relevant information would conclude that there is a threat to a member or firms independence that is not at an acceptable level

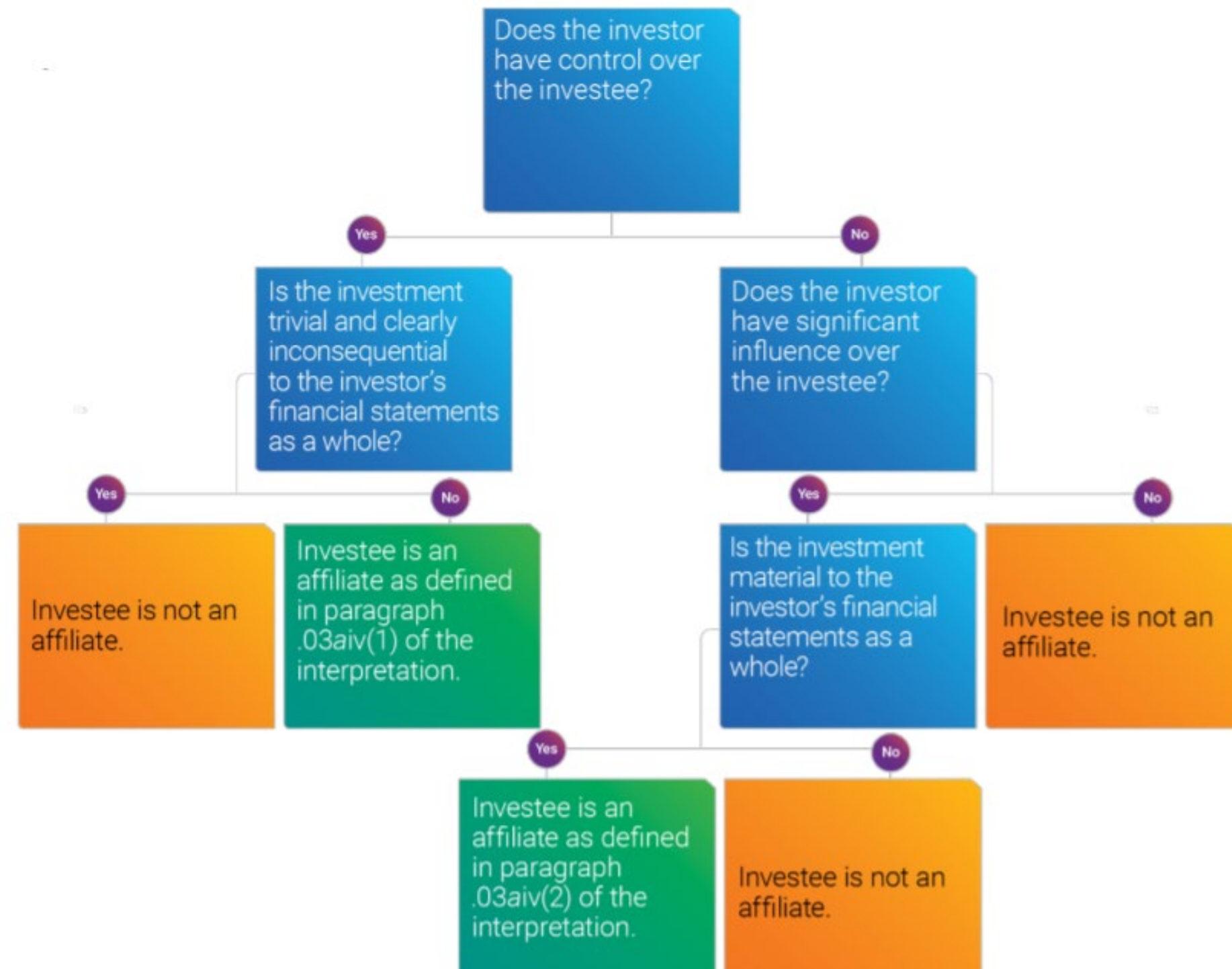
# Updated Independence Standards (continued, 1)

- Threats to independence fall into seven categories:
  - Adverse interest
  - Advocacy
  - Familiarity
  - Management participation
  - Self-interest
  - Self-review
  - Undue influence
- Safeguards to Threats
  - Created by profession, legislation or regulation
  - Implemented by the client
  - Implemented by the firm



# Updated Independence Standards (continued, 2)

- Updated standards effective for periods beginning after December 15, 2021 (CaISTRS FY23)
- Expands scope of independence requirement to affiliates of clients
- Some investments may be affiliates:
  - Real Estate
  - Limited-Partnerships
  - Private Equity
- If so, the financial statement auditors must be independent of affiliate
- Requires a review of current investments and on-going monitoring



# Updated Independence Standards (continued, 3)

- Independence in fact and appearance
  - Widely interpreted that Those Charged with Governance are responsible for independence in appearance
  - Auditors are responsible for independence in fact
  - Reality is that this is a shared responsibility
- Materiality considerations
- Best practices to consider
  - Consultation with ARM financial expert
  - Revisit ARM Committee charter for any necessary updates



# Newly Effective Auditing Standards

## **SAS 134 – Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of FS**

- Form and content of auditor's report
  - Reorganized with Opinion and Basis for Opinion paragraphs first
  - Added Independence and Ethics language
  - Added general management responsibility related to going concern, not only when there is a substantial doubt conclusion
  - Revised language for auditor's responsibilities
  - Expansion of language regarding reasonable assurance
  - Emphasis on the difference in detection risk for a material misstatement resulting from fraud versus error
  - Updated for revised definition of materiality under SAS 138
  - Added language regarding professional judgment and professional skepticism
  - General auditor responsibility related to going concern, not only when there is a substantial doubt conclusion
  - Added language regarding communication with Those Charged with Governance

# Newly Effective Auditing Standards (continued, 1)

## SAS 134 – Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of FS

- Communications with Those Charged with Governance (TCWG)
  - Auditor should communicate with TCWG an overview of planned scope and timing of the audit, **which includes communicating about the significant risks identified by the auditor**
  - The auditor should communicate with TCWG **circumstances that affect the form and content of the auditor's report, if any**
- Other matters regarding the planned scope and timing of the audit, *such as*:
  - How the auditor plans to address areas of higher assessed risks of material misstatement
  - Nature and extent of specialized skills or knowledge... including use of an auditor's expert
  - Addressing the implications for the financial statements of significant changes within GAAP or in the entity's environment, financial condition, or activities



# Newly Effective Auditing Standards (continued, 2)

## **SAS 134 – Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of FS**

- Key Audit Matters
  - Defined as “Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period.”
    - Higher risks of material misstatement / significant risks
    - Significant auditor judgments such as related to estimates with high estimation uncertainty
    - Significant events or transactions
  - Auditor does not provide a separate opinion on these matters
  - Communication to TCWG regarding risk assessment process and audit response
- Disclosures
  - Consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures to address risks of material misstatement including both quantitative and qualitative considerations

# Newly Effective Auditing Standards (continued, 3)

## SAS 137 – The Auditor’s Responsibility Relating to Other Information Included in Annual Reports

### Other Information

Clarifies definition of other information – included in an entity’s annual report.  
Describes annual report.  
Financial or non-financial.

### Performance Requirements

Expanded performance requirements.  
Expanded direction to address inconsistencies and errors.



### Reporting Requirements

New reporting requirements when all other information is obtained by RRD, for transparency.  
No opinion or assurance.

### Communications with TCWG

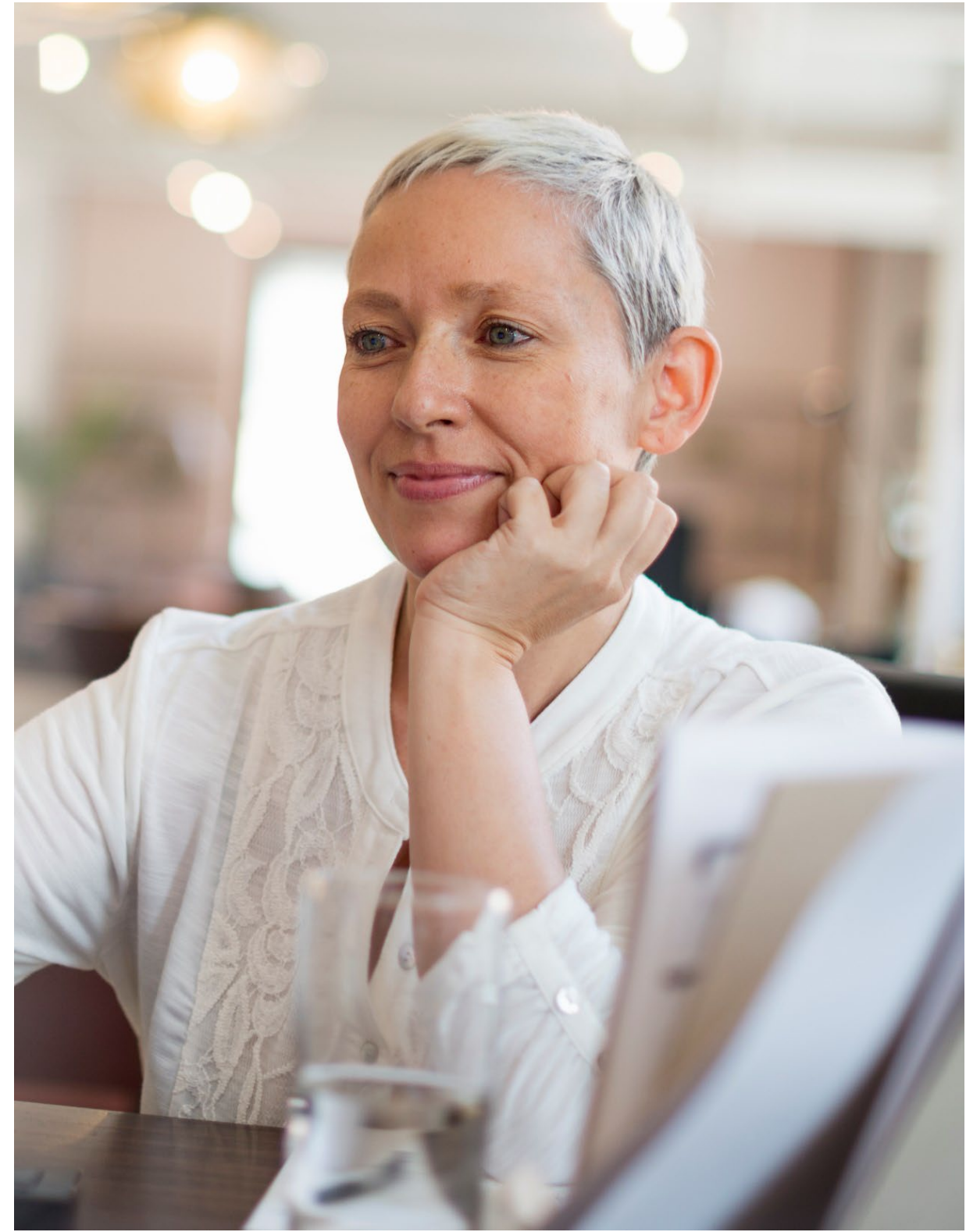
Suggested planning items.  
Required communications items in completion.

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# Newly Effective Auditing Standards (continued, 4)

## SAS 138 – Amendments to the Description of the Concept of Materiality

- Misstatements, including omissions, are considered to be 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
- Eliminates inconsistency between the AICPA and U.S. judicial system and other standard setters and regulators



# Newly Effective Accounting Standards

## Standards Effective for June 30, 2022

- GASB Statement No. 87, *Leases*
  - Requires recognition of capital lease assets and liabilities for those previously classified as operating leases
- GASB Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*
  - Simplifies the accounting for interest costs incurred before the end of a construction period and enhances comparability of capital assets
- GASB Statement No. 91, *Conduit Debt Obligations*
  - Provide a single method of reporting conduit debt obligations and remove diversity in practice
- GASB Statement No. 92, *Omnibus 2020*
  - Enhance comparability and consistency in accounting and financial reporting by addressing practice issues that have been identified during application of certain GASB standards
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
  - Provides exceptions for the use of LIBOR and requires termination of hedge accounting when renegotiating under new rates

# Newly Effective Accounting Standards (continued, 1)

## Standards Effective for June 30, 2022

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*
  - Increase consistency and comparability in reporting of fiduciary component units without separate governing boards
  - Mitigate costs of reporting of DC pension plans, DC OPEB plans, and other employee benefit plans as fiduciary component units in fiduciary fund financial statements
  - Enhance relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*
  - Establishes the term *annual comprehensive financial report* and its acronym *ACFR*, replacing instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments

# Newly Effective Accounting Standards (continued, 2)

## Standards Issued, but Not Yet Effective

- GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
  - Effective for FY2023
- GASB Statement No. 96, Subscription-Based Information Technology Arrangements
  - Effective for FY2023
- Numerous additional projects on the horizon including certain that may be impactful to CalSTRS
  - Financial reporting of investments under management
  - Risks and Uncertainties Disclosures



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# The Future of Auditing





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# Questions & Discussion

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