JO Knows the New Audit Standards

OCTOBER 13, 2022 | BY: THE NONPROFIT TEAM

Does your nonprofit organization or business publish an annual report? If so, there are important changes to the audit standards that impact financial and non-financial information reported in annual reports by entities who undergo annual audits.

Effective for calendar years ending on or after December 31, 2021 and fiscal years ending in 2022, Statement on Auditing Standards (SAS) Number 137 sets out new responsibilities for auditors regarding information included in annual reports published by audited entities.

Background and Purpose

Many nonprofit organizations distribute annual reports to their constituents as a key fundraising initiative that is often done in conjunction with their annual appeal. Some for-profit companies also publish annual reports to distribute to their shareholders that contain summarized financial results from annual audits. SAS 137 has been issued to ensure consistency between audit results and annual report data published by auditees so the credibility of the audit is not questioned.

Previously, auditors were not required to perform any level of due diligence around the information contained in their clients' annual reports. Under the new standard, however, that all has changed, as auditors are now obligated to ascertain whether their audit client will be issuing an annual report and, if so, must obtain a copy of the annual report prior to dissemination to verify reported information is not materially inconsistent with the audited financial statement data. Auditors must fulfill these responsibilities regardless of when the client issues its annual report, whether it is prior to or subsequent to audit report issuance.

Impact of the Standard on the Audit Process

A new paragraph will be added to the auditors' report that summarizes the auditor's responsibilities relative to the other information included in the annual report. In addition, auditors are now required to communicate with the audited entity's governance body its responsibilities relative to the other information included in the annual report, procedures performed, and the results of those procedures.

If the issuing entity refuses to correct a material misstatement included in the other information, additional procedures will be required of the auditor. These include communicating the material inconsistency in the audit report if the annual report is issued prior to audit report release or, if issued subsequently, to bring the matter to the attention of anyone in receipt of the audited financial statements.

When annual report issuance is subsequent to audit report release, auditors are required to obtain management's written acknowledgment in the management representation letter regarding what documents comprise the annual report and the entity's planned timing of issuance in the management representation letter.

Other Key Provisions of the Audit Standard

- "Other information" is defined as financial/nonfinancial information included in an annual report.
- Entities publishing annual reports will not be able to circumvent this new requirement by labeling other information as "unaudited", as the standard applies regardless of how the information might be qualified.
- Annual report information included on an entity's website is outside the scope of the standard; it only applies to other information included in annual reports distributed in hard or soft copy form.

© 2026 Johnson O'Connor Feron & Carucci LLP | Certified Public Accountants

- Some examples of other information frequently included in annual reports are:
- Treasurer's report
- Chairman's statement
- Financial ratios, summaries or highlights
- Tables, charts, or graphs containing extracts of the financial statements

Executive Summary

SAS 137 is a new audit standard that imposes additional responsibilities on auditors of entities who publish annual reports. The key responsibility of auditors is to ensure that financial and non-financial data reported by the entity is not materially inconsistent with audit results. Additional reporting is required by the auditor under the new standard, including a separate paragraph in the auditor's report and specific required communications with those charged with governance, that describes the auditor's responsibilities for other information and results of procedures performed on the other information. The standard is effective for calendar year 2021 or fiscal year 2022 audit periods. To learn more about Johnson O'Connor's Nonprofit division, visit our **website**.

RELATED SERVICES

Audit & Assurance

RELATED INDUSTRIES

Nonprofit

© 2026 Johnson O'Connor Feron & Carucci LLP | Certified Public Accountants