

# **SAS Update**

NCACPA 83RD ANNUAL SYMPOSIUM

NOVEMBER 14, 2022

# Learning Objectives

By the end of this session, you will be able to:

Summarize recent developments in auditing standards

Develop a plan to implement SAS changes to your upcoming engagements

# Meet the Presenter



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# **SAS 142**

*Audit Evidence*

# SAS 142: Overview

- Effective for periods ending on or after December 15, 2022
- Focus:
  - › What is audit evidence?
  - › How should the auditor evaluate the evidence?
- Goals:
  - › Update standards to evolve with technological advancements
  - › Enhance audit quality

# SAS 142: Summary

## Sufficient Appropriate Audit Evidence

- Broader focus on considering attributes of information to be used as evidence
- Shift from procedure to evaluating evidence

## Attributes of Reliable Information

- Accuracy
- Completeness
- Authenticity
- Susceptibility to bias

## Professional Skepticism

- Consider if information is susceptible to bias
- Consider whether audit evidence corroborates or contradicts management's assertions.

## Automated Tools & Techniques

- Examples of how these might be used as evidence
- Allows for concurrent risk assessment and substantive procedure

# The Auditor's Objective

“The objective of the auditor is to evaluate information to be used as audit evidence, including the results of audit procedures, to inform the auditor’s overall conclusion about whether sufficient appropriate audit evidence has been obtained.”

(SAS No. 142, par 5)

# The Auditor's Objective is to...

## Pre SAS 142

... design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

## Post SAS 142

... evaluate information to be used as audit evidence, including the results of audit procedures, to inform the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.



# External Information Source

## *New definition*

“An external individual or organization that provides information that is used by the entity in preparing the financial statements or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of management’s specialist, service organization,<sup>4</sup> or auditor’s specialist,<sup>5</sup> the individual or organization is not considered an external information source with respect to that particular information.”

(SAS No. 142, par 6)

# Audit Evidence Defined

## Pre SAS 142

Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.

## Post SAS 142

Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements.

# SAS 142: What Didn't Change?

## **Appropriateness (of audit evidence):**

The measure of the quality of audit evidence, that is, its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

## **Sufficiency (of audit evidence):**

The measure of the quantity of audit evidence. The quantity of audit evidence is affected by the auditor's assessment of the risks of material misstatement and the quality of audit evidence that is obtained (that is, its appropriateness)

# Attributes of Reliable Information

Accuracy

Completeness

Authenticity

Susceptibility  
to bias

# **SAS 143**

*Auditing Accounting Estimates and Related Disclosures*

# SAS 143: Overview

- Effective for periods ending on or after December 15, 2023
- Key Updates:
  - › Includes enhanced risk assessment requirements related to estimates
    - + Risk assessment: focus on elements of estimate that drive risk
    - + Risk response: ensure procedures address identified elements driving risk
  - › Separate assessment of inherent risk and control risk required

# **SAS 144**

*Amendment to AU-C Sections 501, 540, and 620 Related to the Use of Specialist and the Use of Pricing Information Obtained from External Information Sources*

# SAS 144: Overview

- Effective for periods ending on or after December 15, 2023



# SAS 144: Key Updates

- Additional guidance for:
  - › auditor's evaluation of management's specialist:
    - + Are significant assumptions appropriate?
  - › the use of auditor's specialist
- Appendix: "Use of Pricing Information From Third Parties as Audit Evidence"

# **SAS 145**

*Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*

# SAS 145: Overview

- Effective for periods ending on or after December 15, 2023
- Does not fundamentally change key concepts related to audit risk
- Issued in response to deficiencies noted across the profession in peer review
- Purpose: to clarify & enhance identification and assessment of risks of material misstatement

# SAS 145: Key Updates – Internal Controls

- Clarification on understanding the components of internal control
- Requires assessment of control risk at the maximum if not testing controls for operating effectiveness
  - › Cannot reduce substantive work as a result of positive conclusion on design & implementation of controls
- Requires identification & evaluation of design of general IT controls arising from the use of IT as well determining their implementation

# SAS 145: Key Updates – Risk Assessment

- Requires separate assessment of inherent and control risk
- Introduces Inherent Risk Factors
- Introduces Spectrum of Inherent Risk
- Revised definition of Relevant Assertions
- New definition of Significant Class of Transactions, Account Balances, or Disclosures
- Revised definition of significant risk

# Relevant Assertion

## *New definition*

An assertion about a class of transactions, account balance, or disclosure is relevant when it has an identified risk of material misstatement.

(SAS No. 145, par 12 & A12)

# Significant Risk

## *New definition*

An identified risk of material misstatement:

- i. for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or
- ii. That is to be treated as a significant risk in accordance with the requirements of other AU-C sections.

(SAS No. 145, par 12)

# SAS 145: Key Updates - Other

- New “stand-back” requirement
  - › Forces evaluation of the completeness of the identification of significant classes of transactions, balances, & disclosures
  - › Explicit requirement to stand back & consider if risk assessment makes sense at a whole
- Audit documentation requirements



# **SAS 146**

*Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

# SAS 146: Overview

- Effective for periods beginning on or after December 15, 2025

# SAS 146: Key Updates

- Emphasizes importance of exercising professional skepticism
- Enhances documentation of auditor's judgments
- Clarifies that engagement partner is responsible for managing and achieving quality
- Significant project for firms to implement

# SAS 146: Engagement Partner Responsibilities

## Manage and achieve quality

- Emphasize the firm's culture
- Communicate expected behavior to engagement team members

## Achieve or take responsibility for:

- Ethical requirements, including independence
- Acceptance and continuance of clients and engagements
- Engagement resources
- Engagement performance (direction, supervision, review, consultation, quality control review, differences of opinion)
- Monitoring and remediation

# **SAS 147**

*Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*

# SAS 147: Overview

- Effective for periods beginning on or after June 30, 2023
- Clarifies requirements & guidance related to inquiries of predecessor auditor that assist the auditor in determination of whether to accept the engagement

# SAS 147: Additional Requirements

## Successor

- Required to inquire of predecessor regarding:
  - Identified or suspected fraud
  - Matters involving noncompliance with laws and regulations
- If engagement accepted, inquiries & responses must be documented

## Predecessor

- Timely response to successor's inquiries required
- Must clearly state if response is limited due to unusual circumstances

# **SAS 148**

*Amendments to AU-C Section 935*



# SAS 148: Overview

- Applies to compliance audits
- Amends SAS 142 and SAS 145
- Early implementation is permitted

# SAS 148: Amendments related to SAS 142

- Effective for compliance audits for fiscal periods beginning on or after December 15, 2022
- No substantive changes

# SAS 148: Amendments related to SAS 145

- Effective for compliance audits for fiscal periods beginning on or after December 15, 2023
- Key changes:
  - › Additional paragraphs within SAS 145 identified as not applicable for compliance audits

**Questions?**