

Audit & Attestation Update: What's Going on at the AICPA

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General Disclaimer

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Official positions of standard setters are determined through certain specific committee procedures, due process, and extensive deliberation.

Application of accounting and auditing principles is the responsibility of an organization's management and their independent public accountant.

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Agenda

SAS 143: Auditing Accounting Estimates

SAS 144: Use of Specialists

SAS 145: Risk Assessment

Quality Management Standards

SAS 147: Inquiry of Predecessor Auditor

SAS 148: Amendment to AU-C 935

SAS 149: Group Audits

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SAS 143



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SAS 143

Auditing Accounting Estimates and Related Disclosures

- Issued: July 2020
- Background:
 - Increasing use by FRF of estimates
 - Rev Rec, Leases, CECL

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Update

Objective of Auditor

- To obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statement are reasonable, in the context of the applicable financial reporting framework

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Definitions

Accounting Estimate

- A monetary amount for which measurement, in accordance with the requirement of the applicable FRF is subject to estimation uncertainty

Estimation Uncertainty

- Susceptibility to an inherent lack of precision in measurement

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Scope

- Includes requirements and guidance that refer to or expand on the application of certain AU-C sections to accounting estimates and disclosures

AU-C 315 (Risk Assessment)

AU-C 330 (Risk Response)

AU-C 450 (Evaluating Misstatement)

AU-C 500 (Evidence)

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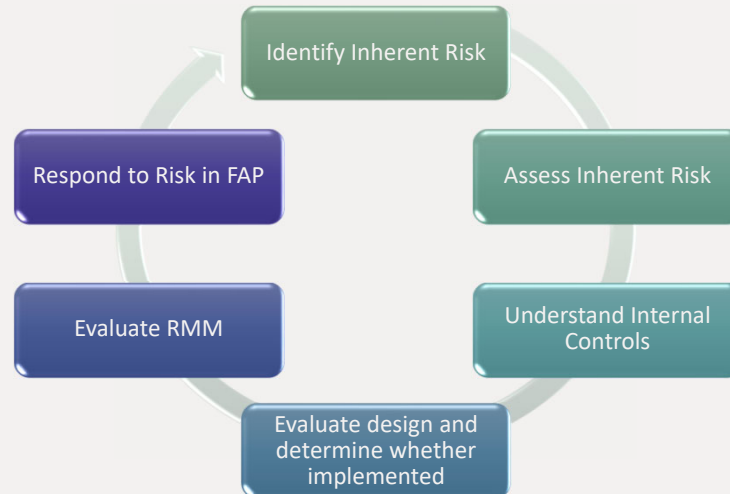
Nature of Estimates

- Accounting estimates vary widely in nature and are required to be made by management when the monetary amounts cannot be directly observed
- The measurement of these amounts is subject to estimation uncertainty due to inherent limitations in knowledge or data
 - This gives rise to inherent subjectivity and variation in measurement outcomes

Accounting Estimates

- The process involves selecting and applying a method using assumptions and data, which requires judgment, and can give rise to complexity in measurement

Risk Assessment Cont'd



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Further Audit Procedures

- Should be responsive to assessed RMM

Approaches:

- Obtain audit evidence from events occurring up to the date of the auditor's report
- Testing how management made the accounting estimate
- Developing an auditor's point estimate or range

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Effective Date

- For audits of financial statement for periods ending on or after December 15, 2023

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SAS 144



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SAS 144

Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources

- Issued: June 2021
- Background:
 - Responds to feedback that sought more guidance on auditing the fair value of financial instruments

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Update

Inventory Taking
Firms

Use of Pricing
Information From
Third Parties as
Audit Evidence

Auditor's Specialist

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Effective Date

- Effective for audits of financial statements for periods ending on or after December 15, 2023
 - Early implementation is permitted

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SAS 145: Risk Assessment



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Background

SAS 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

- Issued October 2021
- Background
 - Common Deficiency
 - Convergence

Common Deficiency

- Deficiencies in the auditor's risk assessment procedures is a common issue identified by practice monitoring programs in the United States and worldwide
 - In 2020 U.S. peer reviews, AU-C section 315 was the leading source of matters for further consideration (MFCs), constituting 25% of MFCs

IR & CR

- A separate assessment of inherent risk and control risk is required

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RMM Cont'd

- A risk of material misstatement exists when
 - There is a reasonable possibility of a misstatement occurring (likelihood), and
 - If it were to occur, there is a reasonable possibility of the misstatement being material (magnitude)

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Spectrum of Risk

- Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others
 - The degree to which the level of inherent risk varies is referred to as the spectrum of inherent risk

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Definition

Significant Class of Transactions, Account Balance, or Disclosure

- A class of transactions, account balance, or disclosure for which there is one or more relevant assertions

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Scalability

- Requirements are intended for audits of all entities, regardless of size or complexity
 - Application material incorporates considerations specific to both less and more complex entities, where appropriate
- Although the size of an entity may be an indicator of its complexity, some smaller entities may be complex, and some larger entities may be less complex

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Inherent Risk Factors

- Characteristics of events or conditions that affect the susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance, or disclosure, before consideration of controls. Such factors may be qualitative or quantitative and include complexity, subjectivity, change, uncertainty, or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.
- Depending on the degree to which the inherent risk factors affect the susceptibility of an assertion to misstatement, the level of inherent risk varies on a scale that is referred to as the spectrum of inherent risk.

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Inherent Risk Factors Cont'd

- Qualitative inherent risk factors relating to the preparation of information required by the applicable FRF include:



*Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk

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Appendix B

Relevant inherent risk factor	Examples of events and conditions that may indicate the existence of risks of material misstatement at the assertion level
Complexity	<p>Regulatory:</p> <ul style="list-style-type: none"> Operations that are subject to a high degree of complex regulation <p>Business model:</p> <ul style="list-style-type: none"> The existence of complex alliances and joint ventures <p>Applicable financial reporting framework:</p> <ul style="list-style-type: none"> Accounting measurements that involve complex processes <p>Transactions:</p> <ul style="list-style-type: none"> Use of off-balance-sheet financing, variable interest entities, and other complex financing arrangements
Subjectivity	<p>Applicable financial reporting framework:</p> <ul style="list-style-type: none"> A wide range of possible measurement criteria of an accounting estimate, for example, management's recognition of depreciation or construction income and expenses Management's selection of a valuation technique or model for a noncurrent asset, such as investment properties

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Definition

System of Internal Control

- The system designed, implemented, and maintained by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations

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Definition Cont'd

- For purposes of GAAS, consists of five interrelated components:
 - 1) Control environment
 - 2) The entity's risk assessment process
 - 3) The entity's process to monitor the system of internal control
 - 4) The information system and communication
 - 5) Control activities

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Definition

General Information Technology (IT) Controls

- Controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information-processing controls and the integrity of information in the entity's information system

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Definition

IT Environment

- The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies. For the purposes of this definition
 - An IT application is a program or a set of programs that is used in the initiation, processing, recording, and reporting of transactions or information. IT applications include data warehouses and report writers.
 - The IT infrastructure comprises the network, operating systems, and databases and their related hardware and software
 - The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment, and manage IT operations

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Definition

Information-Processing Controls

- Controls relating to the processing of information in IT applications or manual information processes in the entity's information system that directly address risks to the integrity of information

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IT Controls

- The auditor should identify the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT
 - Identify the following:

The related risks arising from the use of IT

The entity's general IT controls that address such risks

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Definition

Controls

- Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance
- In this context
 - Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions
 - Procedures are actions to implement policies

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Controls

- For each control identified
 - Evaluate whether the control is designed effectively to address the RMM at the assertion level or effectively designed to support the operation of other controls
 - Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel

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Direct vs. Indirect

- Direct controls are controls that are precise enough to address RMM at the assertion level
- Indirect controls are controls that support direct controls. Although indirect controls are not sufficiently precise to prevent, or detect and correct, misstatements at the assertion level, they are foundational and may have an indirect effect on the likelihood that a misstatement will be prevented or detected on a timely basis.

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Definition

Significant Risk

- An identified risk of material misstatement
 - 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
 - That is to be treated as a significant risk in accordance with the requirements of other AU-C sections

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Assessing Control Risk

- For identified RMM at the assertion level, the auditor should assess control risk based on the auditor's understanding of controls and the auditor's plan to test the operating effectiveness of controls
 - If the auditor does not plan to test the operating effectiveness of controls, the auditor should assess control risk at the maximum level such that the assessment of the **RMM is the same as the assessment of inherent risk**

Audit Documentation

- The auditor should include in the audit documentation
 - The discussion among the engagement team and the significant decisions reached;
 - Key elements of the auditor's understanding of risk; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
 - The evaluation of the design of identified controls, and determination whether such controls have been implemented
 - The identified and assessed RMM at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made

Effective Date

- For audits of financial statements for periods ending on or after December 15, 2023

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Quality Management Standards



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Suite of Standards

SQMS1

SQMS2

SSARS 26

SAS 146

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SAS 147



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SAS 147

Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations

- Issued: June 2022
- Background:
 - Ethics interpretation changes
 - Responding to Noncompliance With Laws and Regulations (ET sec. 1.180.010 and ET sec. 2.180.010)

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Inquiry of Predecessor Auditor

- If management authorizes the predecessor auditor to respond to the auditor's inquiries, the auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including
 - Identified or suspected fraud involving
 - Management,
 - Employees who have significant roles in internal control, or
 - Others, when the fraud resulted in a material misstatement in the FS
 - Matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor's attention during the audit, other than when matters are clearly inconsequential

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Effective Date

- For audits of financial statements for periods beginning on or after June 30, 2023

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SAS 148



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SAS 148

Amendment to AU-C Section 935

- Issued: August 2022
- Background:
 - AU-C 935 addresses the application of GAAS to a compliance audit
 - Provides a list of standards that are not relevant to a compliance audit in the appendix

Update

- Amends AU-C 935 to addresses changes in

SAS 142, Audit
Evidence

SAS 145, Risk
Assessment

SAS 149



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SAS 149

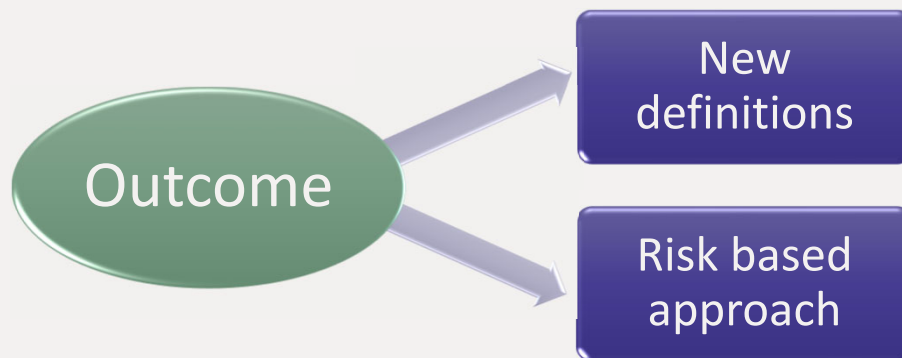
Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)

- Issued: March 2023
- Background:
 - Convergence with IAASB

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Background

- Common Audit Deficiency in Peer Review



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Definition

Component

- An entity, business unit, function, or business activity determined by the group auditor for purposes of planning and performing audit procedures in a group audit
- The group auditor uses professional judgment in determining components at which audit work will be performed

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Groups & Components

- Group financial statements include the financial information of more than one entity or business unit through a consolidation process

A group may be organized in various ways

- Parent / Sub
- JVs
- Equity method investments
- Branches/Divisions
- Functions/Business Activities

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Audit Approach

- The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed RMM of the group financial statements
 - Use professional judgment in determining the components at which the audit work will be performed
 - Based on the group auditor's understanding of the group and its environment, and other factors
 - i.e., the ability to perform audit procedures centrally, the presence of shared service centers, or the existence of common information systems and control

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New Definition

Referred-To Auditor

- An auditor who performs an audit of the financial statements of a component to which the group engagement partner determines to make reference in the auditor's report on the group financial statements
- A referred-to auditor is not a component auditor, and accordingly, is not a part of the engagement team for a group audit

Revised Definition

Component Auditor

- An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

Another Definition

Aggregation Risk

- The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole

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Effective Date

- For audits of group financial statements for periods ending on or after December 15, 2026

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What Questions Do You Have?



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