

Recent Auditing Standards: A Comprehensive Summary

Keeping up with new auditing standards is a core responsibility for any practicing auditor. This section provides a focused summary of recent standards issued by the Auditing Standards Board, helping you quickly understand what has changed and what it means for your engagements. Whether you're refreshing your knowledge or preparing for peer review, this is an efficient way to confirm you're current with the profession's latest requirements.

CREDIT HOURS 2 | FIELD OF STUDY AUDITING | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify how inherent and control risk should be assessed under the SAS No. 143 requirements.
- Recall the three approaches that an auditor can use to perform further audit procedures required by SAS No. 143.
- Identify some instances in which an auditor may conclude that a specialist's work is not adequate.
- Identify a type of risk assessment procedure that an auditor can use in accordance with SAS No. 145.
- Recall examples of risk assessment procedures that an auditor may perform in SAS No. 145.
- Recognize how to perform risk assessment procedures when relying on information obtained from previous experience with an entity.
- Identify examples of risk assessment procedures to obtain audit evidence in accordance with SAS No. 145.
- Recognize a new requirement made by SAS No. 145 in connection with assessing inherent risk and control risk in an audit.
- Identify how an auditor should respond if the auditor does not plan to test the operating effectiveness of an entity's controls.

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Section 1

Chapter Objective

After completing this chapter, you should be able to:

- Identify how inherent and control risk should be assessed under the SAS No. 143 requirements.
- Recall the three approaches that an auditor can use to perform further audit procedures required by SAS No. 143.
- Identify some instances in which an auditor may conclude that a specialist's work is not adequate.
- Identify a type of risk assessment procedure that an auditor can use in accordance with SAS No. 145.
- Recall examples of risk assessment procedures that an auditor may perform in SAS No. 145.
- Recognize how to perform risk assessment procedures when relying on information obtained from previous experience with an entity.
- Identify examples of risk assessment procedures to obtain audit evidence in accordance with SAS No. 145.
- Recognize a new requirement made by SAS No. 145 in connection with assessing inherent risk and control risk in an audit.
- Identify how an auditor should respond if the auditor does not plan to test the operating effectiveness of an entity's controls.

XXII. SUMMARY OF RECENT AUDITING STANDARDS

This course addresses recently issued auditing standards, SAS No. 143 to 149, as summarized in the following table:

Standard	Effective Date
SAS No. 143: Auditing Accounting Estimates and Related Disclosures	Audits of financial statements for periods <u>ending on or after December 15, 2023</u> (calendar year 2023)
SAS No. 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	Audits of financial statements for periods <u>ending on or after December 15, 2023</u> (calendar year 2023)
SAS No. 145: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement	Audits of financial statements for periods <u>ending on or after December 15, 2023</u> (calendar year 2023)
SAS No. 146: Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards	Audits conducted in accordance with GAAS for periods <u>beginning on or after December 15, 2025</u> (calendar year 2026)
SAS No. 147: Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations	Audits of financial statements for periods <u>beginning on or after June 30, 2023</u> (calendar year 2024)
SAS No. 148: Amendment to AU-C Section 935	Portions are effective for compliance audits for <u>fiscal periods ending on or after December 15, 2022</u> (calendar year 2022) All other amendments are effective for compliance audits for <u>fiscal periods ending on or after December 15, 2023</u> (calendar year 2023)
SAS No. 149: Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)	Audits of group financial statements for <u>periods ending on or after December 15, 2026</u> (calendar year 2026)

The previous table indicates that SAS Nos. 143-149 are effective from 2023 to 2026 calendar year-end audits.

Following is a brief summary of each of the four standards:

- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*, addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements.
- SAS No. 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*, provides additional guidance on the use of specialists and pricing information obtained from external information sources.
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, expands guidance on understanding an entity's system of internal control, including addressing risks from an entity's use of information technology (IT) and determining risks of material misstatement and significant risks.
- SAS No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, offers expanded guidance on quality management in an audit engagement.
- SAS No. 147: *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations*: clarifies the requirements and guidance related to the auditor's inquiries of a predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement.
- SAS No. 148: *Amendment to AU-C Section 935: Amends AU-C 935, Compliance Audits*, to reflect changes made by recently issued auditing standards.
- SAS No. 149: *Special Considerations — Audits of Group Financial Statements*: Addresses special considerations that apply to a group audit, including circumstances in which component auditors are involved or when the group auditor makes reference to the audit of a referred-to auditor.

SAS NO. 143: AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

Issued: July 2020

Effective Date:

SAS No. 143 is effective for audits of financial statements for periods ending on or after December 15, 2023.

Objective

The objective of SAS No. 143 is to address the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements.

Introduction

The overall guidance for accounting estimates in an audit has been found in AU-C 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

In July 2020, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards No. 143, *Auditing Accounting Estimates and Related Disclosures*, as part of the AICPA's *Enhancing Audit Quality Initiative*, with the goal of enhancing the auditor's focus on factors driving estimation uncertainty and potential management bias.

SAS No. 143 does the following:

1. Addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements, and
2. Enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates.

SAS No. 143 supersedes SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification* (as amended), AU-C 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and amends several other AU-C sections.

The overall goal of issuing SAS No. 143 is to enhance the auditing standards related to auditing accounting estimates and to enhance the auditor's focus on factors driving estimation uncertainty and potential management bias.

SAS No. 143 focuses on factors driving the uncertainty of estimates and the impact of management bias in creating those estimates, and does the following:

1. Explains the nature of accounting estimates and the concept of estimation uncertainty
2. Provides information about scalability of the SAS for all types of accounting estimates, from those that are relatively simple to those that are complex
3. Requires a separate assessment of inherent risk and control risk at the assertion level
4. Includes an enhanced risk assessment intended to address the challenges auditors face when auditing accounting estimates by:
 - a) Providing risk assessment requirements that are more specific to estimates, and
 - b) Addressing the increasingly complex business environment and complexity in financial reporting frameworks
5. Emphasizes that the auditor's further audit procedures need to be responsive to the reasons for the assessed risks of material misstatement at the relevant assertion level
6. Refers to relevant requirements in other AU-C sections and provides related guidance to emphasize the importance of the auditor's decisions about controls relating to accounting estimates
7. Addresses the exercise of professional skepticism when auditing accounting estimates, and

8. Requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework.

SAS No. 143 supersedes and amends several AU-C sections, including:

1. Supersedes SAS No. 122 (as amended), AU-C 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and
2. Amends several sections of SAS Nos. 122, 134, and 136.

Overview of SAS No. 143

SAS No. 143 emphasizes that accounting estimates can vary widely in nature and are required to be made by management when the monetary amounts cannot be directly observed.

The measurement of monetary amounts in financial statements is subject to estimation uncertainty, which reflects inherent limitations in knowledge or data. These limitations give rise to inherent subjectivity and variation in the measurement outcomes.

Examples of accounting estimates related to classes of transactions, account balances, and disclosures include the following:

- *Inventory* obsolescence
- Depreciation of property and equipment
- Valuation of infrastructure assets, such as buildings and roadways
- Valuation of financial instruments
- Outcome of pending litigation
- Provision for expected credit losses
- Valuation of insurance contract liabilities
- Warranty obligations
- Employee retirement benefits liabilities
- Share-based payments
- Fair value of assets or liabilities acquired in a business combination, including the determination of goodwill and intangible assets
- *Impairment* of long-lived assets or property or equipment held for disposal
- Nonmonetary exchanges of assets or liabilities between independent parties, and
- Revenue recognized for long-term contracts.

SAS No. 143 makes the following observations about accounting estimates, which are reflected in the overall theme of the new SAS:

1. The process of making accounting estimates involves selecting and applying a method using assumptions and data, which requires judgment by management and can give rise to complexity in measurement.
2. The effects of complexity, subjectivity, or other inherent risk factors on the measurement of monetary amounts affect their susceptibility to misstatement.

What is data?

SAS No. 143 offers examples of data and its sources.

Examples of data include one or more of the following:

- Prices generated by market transactions
- Operating times or quantities of output from a production machine
- Historical prices or other terms included in contracts, such as a contracted interest rate, a payment schedule, and a term included in a loan agreement
- Forward-looking information, such as economic or earnings forecasts obtained from an external information source, and
- A future interest rate determined using interpolation techniques from forward interest rates (derived data).

The SAS also states that data can come from a wide range of sources that are:

- Generated within the organization or externally
- Obtained from a system that is either within or outside the general or subsidiary ledgers
- Observable in contracts, or
- Observable in legislative or regulatory pronouncements.

Degree of Estimation Uncertainty

Although SAS No. 143 applies to all accounting estimates, including fair value accounting estimates, the degree to which an accounting estimate is subject to estimation uncertainty will vary substantially.

The nature, timing, and extent of the risk assessment and further audit procedures required by SAS No. 143 will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement.

What is estimation uncertainty?

SAS No. 143 carries over from AU-C 540 the concept of estimation uncertainty and modifies its definition to mean: *“Susceptibility to an inherent lack of precision in measurement.”*

Not all accounting estimates are subject to a high degree of estimation uncertainty.