

SAS 142-143: Audit Evidence and Accounting Estimates Under

Get up to speed on two foundational auditing standards that reshape how auditors gather and evaluate evidence. SAS No. 142 updates the framework for audit evidence, including new definitions and requirements for assessing its relevance and reliability. SAS No. 143 addresses auditing accounting estimates and related disclosures, introducing a risk-based approach tied to estimation uncertainty. If your work involves financial statement audits, this course will help you understand what these standards require and how to apply them in practice.

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 an example of an attribute of information obtained as audit evidence.
- Recognize actions an auditor should perform in evaluating information used as audit evidence.
- Recognize attributes of information to be used as audit evidence.
- Identify an attribute that affects the reliability of information used as audit evidence.
- Recall functions on which an auditor can use automated tools and techniques.
- Identify an example of an accounting estimate related to classes of transactions, account balances, and disclosures identified in SAS No. 143.
- Recognize how inherent and control risks should be assessed in accordance with SAS No. 143.
- Recognize an example of an inherent risk factor.
- Identify examples of approaches that can be performed in assessing the risks of material misstatement from accounting estimates.

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SAS NO. 142: AUDIT EVIDENCE

Chapter Objective

After completing this section, you should be able to:

- Identify an example of an attribute of information obtained as audit evidence.
- Recognize actions an auditor should perform in evaluating information used as audit evidence.
- Recognize attributes of information to be used as audit evidence.
- Identify an attribute that affects the reliability of information used as audit evidence.
- Recall functions on which an auditor can use automated tools and techniques.

Issued: July 2020

Effective Date:

SAS No. 142 is effective for audits of financial statements for periods ending on or after December 15, 2022 (calendar year 2022).

I. OBJECTIVE

The objective of SAS No. 142 is to provide expanded guidance on obtaining audit evidence in a financial statement audit.

II. INTRODUCTION

A. OVERVIEW

The primary guidance for audit evidence has been found in SAS No. 122, AU-C 500, Audit Evidence, which was issued in 2012 as part of the Auditing Standard Board's Clarity Project.

Since the issuance of AU-C 500, there has been an evolution of aids to assist an auditor in gathering audit evidence, including the use of emerging technologies.

SAS No. 142 was issued to supersede SAS No. 122 (as amended), AU-C 500, and amends various other AU-C sections pertaining to audit evidence. SAS No. 142 addresses the evolving nature of businesses and audit services since the issuance of AU-C 500. Those issues include:

1. Using emerging technologies, including Audit Data Analytics (ADA), in performing an audit
2. The need for expanded professional skepticism in performing an audit, and

3. Expanded sources of information that can be used in an audit and the need to evaluate the accuracy, completeness, relevance, and reliability of that information used as audit evidence.

A comparison of the objectives of previous AU-C 500 guidance as compared with the new objective found in SAS No. 142, is found in the following chart:

Previous Objective: AU-C 500	New Objective: SAS No. 142
To 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.	To evaluate information to be used as audit evidence, including the results of audit procedures, to form the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.

B. ISSUANCE OF SAS NO. 142

In July 2020, the Auditing Standards Board (ASB) issued SAS No. 142, Audit Evidence. SAS No. 142 does the following:

1. Supersedes AU-C 500, Audit Evidence, and
2. Amends other AU-C sections of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as follows:
 - a) AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
 - b) AU-C 230, *Audit Documentation*
 - c) AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
 - d) AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence*
 - e) AU-C 501, *Audit Evidence- Specific Considerations for Selected Items*
 - f) AU-C 530, *Audit Sampling*, and
 - g) AU-C 540, *Auditing Accounting Estimates, Including Fair Value Accounting*.

More specifically, SAS No. 142 provides the following guidance to auditors:

1. Explains what constitutes audit evidence in a financial statement audit
2. Identifies types of information an auditor considers when evaluating information to be used as audit evidence, and
3. Addresses audit evidence issues related to:
 - a) Use of emerging technologies and techniques by both preparers and auditors

- b) The application of professional skepticism in the audit engagement
- c) The expanding use of external information sources to provide audit evidence, and
- d) The relevance and reliability of audit evidence.

Following is a brief description of the key changes resulting from the issuance of SAS No. 142:

1. SAS No. 142 offers expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained:

- a) SAS No. 142 expands existing audit evidence guidance to more broadly focus on the attributes of information used in assessing whether sufficient appropriate audit evidence has been obtained.

Note

Under previous guidance, the objective focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence, rather than evaluating the sufficiency and appropriateness of the audit evidence itself.

- b) SAS No. 142 changes the focus of audit evidence by establishing attributes of information to be used as audit evidence when evaluating whether sufficient appropriate audit evidence has been obtained by the auditor.

Attributes of reliable information include its accuracy, completeness, authenticity, and susceptibility to bias.

2. SAS No. 142 includes examples of how automated tools and techniques may be used in an audit, such as:

- a) Audit Data Analytics (ADA), and
- b) Drones or remote observation tools.

Note

SAS No. 142 offers more prominent examples of tools and techniques that may be used with the goal that the SAS No. 142 changes result in greater increase in use of automated tools and techniques.

SAS No. 142 also states that an auditor may use automated tools and techniques to perform both a risk assessment procedure and a substantive procedure concurrently if the objectives of both types of procedures are achieved.

3. SAS No. 142 expands the concept of professional skepticism:

- a) SAS No. 142 incorporates concepts related to professional skepticism including the auditor's consideration of susceptibility of information to bias and whether the audit evidence obtained corroborates or contradicts management's assertions.
- 4. SAS No. 142 relocates content related to management specialists:
 - a) The SAS amends the SASs to relocate content dealing with management's specialists from AU-C 500, *Audit Evidence*, to AU-C 501, *Audit Evidence — Specific Considerations for Selected Items*.

III. SCOPE OF SAS NO. 142

A. GENERAL

SAS No. 142 explains what constitutes audit evidence in an audit of financial statements and identifies attributes of information that are considered by the auditor when evaluating information to be used as audit evidence.

1. The application of SAS No. 142 is used to assist the auditor in fulfilling the auditor's responsibilities, such as the auditor's responsibilities to:
 - a) Identify and assess the risks of material misstatement
 - b) Design and implement responses to the risks of material misstatement identified and assessed by the auditor, and
 - c) Form an opinion on the financial statements.

Note

SAS No. 142 states that its application should be read in conjunction with other AU-C sections that rely on an auditor obtaining sufficient audit evidence. For example:

- AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, requires the auditor to assess the risk of material misstatement at the relevant assertion level.
- AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, requires the auditor to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with AU-C 315, to evaluate the audit evidence obtained in an audit of financial statements, and conclude whether sufficient appropriate audit evidence has been obtained to provide a basis for the auditor's opinion.
- AU-C 700, *Forming an Opinion and Reporting on Financial Statements*, requires an auditor to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The conclusions required by AU-C 700 are based on whether sufficient appropriate audit evidence has been obtained in accordance with AU-C 330.

IV. DEFINITIONS

SAS No. 142 uses the following terms throughout the standard:

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.

Audit evidence: 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.

External information source: 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, or auditor's specialist, the individual or organization is not considered an external information source with respect to that particular information.

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

V. REQUIREMENTS OF SAS NO. 142

A. GENERAL

1. AU-C 315, 330 and 501 provide the general guidance for audit evidence as follows:
 - a) AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
 - b) AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence*, and
 - c) AU-C 501, *Audit Evidence — Specific Considerations for Selected Items*.

Note

The previous guidance on audit evidence found in AU-C 500, *Audit Evidence*, is now superseded by SAS No. 142.

2. AU-C 315 and 330 provide that to draw reasonable conclusions on which to base the auditor's opinion, audit evidence must be obtained by performing the following:
 - a) Risk assessment procedures, and
 - b) Further audit procedures, which are comprised of:
 - Tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and
 - Substantive procedures, which include tests of details and substantive analytical procedures.
3. AU-C 501 addresses specific considerations in obtaining sufficient appropriate audit evidence under AU-C 330 regarding investments in securities and derivatives, inventory, litigation, claims and assessments, and segment information, in an audit of financial statements.

B. EVALUATING INFORMATION TO BE USED AS AUDIT EVIDENCE

1. SAS No. 142 states that an auditor should evaluate information to be used as audit evidence by considering certain attributes of the information obtained, including:
 - a) The relevance and reliability of the information, including its source, and