

SAS 144-145: Specialists, Pricing Sources, and Risk Assessment Standards

Designed for auditors navigating the nuances of SAS No. 144 and SAS No. 145, this course covers two significant updates to audit practice. SAS No. 144 clarifies how auditors should work with specialists and use pricing information from external sources, amending several existing AU-C sections. SAS No. 145 takes a deeper look at understanding the entity and its environment, with updated guidance on assessing risks of material misstatement. Together, these standards strengthen the foundation of a well-planned, risk-focused audit.

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

- Recall one of the amendments made to AU-C 501 by SAS No. 144 in connection with using the work of an external inventory-taking firm.
- 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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SAS NO. 144: AMENDMENTS TO AU-C 501, 540, AND 620 RELATED TO THE USE OF SPECIALISTS AND USE OF PRICING INFORMATION OBTAINED FROM EXTERNAL INFORMATION SOURCES

Chapter Objective

After completing this section, you should be able to:

- Recall one of the amendments made to AU-C 501 by SAS No. 144 in connection with using the work of an external inventory-taking firm.
- Identify some instances in which an auditor may conclude that a specialist's work is not adequate.

Issued: June 2021

Effective Date: SAS No. 144 is effective for audits of financial statements for periods ending on or after December 15, 2023.

I. OBJECTIVE

The objective of SAS No. 144 is to provide additional guidance on the use of specialists and pricing information obtained from external information sources.

II. INTRODUCTION

A. GENERAL

SAS No. 144 amends GAAS to offer guidance on using information from pricing services as audit evidence and expands guidance on use of specialists.

Auditing standards reference two types of specialists:

Auditor's specialist: An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence.

Management's specialist: An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements. Guidance for auditor's considering the work of both the

auditor's specialist and management's specialist is found in various standards, including AU-C 620, *Using the Work of an Auditor's Specialist*, AU-C 501, Audit Evidence- Special Considerations for Selected Items, and AU-C 540, Auditing Accounting Estimates and Related Disclosures.

SAS No. 144 amends the following auditing standards:

- AU-C 501, *Audit Evidence- Special Considerations for Selected Items*
- AU-C 540, *Auditing Accounting Estimates and Related Disclosures*
- AU-C 620, *Using the Work of an Auditor's Specialist*

Special changes made by SAS No. 144 include the following:

1. Changes to AU-C 501, Audit Evidence- Special Considerations for Selected Items

SAS No. 144 amends various application material paragraphs to provide guidance on applying AU-C 501 when management has used the work of a management's specialist in developing accounting estimates, including:

- Enhancing guidance about evaluating the work of management's specialist, and
- Eliminating reference to using the work of an external inventory-taking firm as using the work of a management's specialist.

2. Changes to AU-C 540, Auditing Accounting Estimates and Related Disclosures

SAS No. 144 amends AU-C 540 to add a new Appendix C, "Use of Pricing Information From Third Parties as Audit Evidence," to provide guidance on using information as audit evidence for estimates related to the fair value of financial instruments.

Appendix C is based on *Appendix A, Special Topics, of PCAOB Auditing Standard 2501, Auditing Accounting Estimates, Including Fair Value Measurements*, which contains requirements for auditors and issuers.

3. Changes to AU-C 620, Using the Work of an Auditor's Specialist

SAS No. 144 makes amendments to various application paragraphs in AU-C 620 to enhance the guidance related to using the work of an auditor's specialist.

III. DEFINITIONS OF SAS NO. 144

For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

- **Auditor's specialist:** An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's specialist may be

either an auditor's internal specialist (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm) or an auditor's external specialist.

- **Expertise:** Skills, knowledge, and experience in a particular field.
- **Management's specialist:** An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

IV. REQUIREMENTS OF SAS NO. 144

A. AMENDMENTS TO AU-C 501, AUDIT EVIDENCE - SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

Most of the substantive changes made by SAS No. 144 to AU-C 501 pertain to use of a management's specialist.

AU-C 501 defines a management's specialist as the following:

Management's specialist: An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Change 1: Expanded objective of obtaining audit evidence to include work of a management's specialist

AU-C 501 is amended to expand the objective of obtaining audit evidence to include the work of a management's specialist.

1. As revised, the auditor is to obtain sufficient appropriate audit evidence regarding the:
 - a) Valuation of investments in securities and derivative instruments
 - b) *Existence* and condition of inventory
 - c) *Completeness* of litigation, claims, and assessments involving the entity
 - d) *Presentation* and disclosure of segment information, in accordance with the applicable financial reporting framework, and
 - e) Work of management's specialists (added by SAS No. 144).

Change 2: Expands guidance on use of the work of an external inventory-taking firm

Management may engage external organizations that have expertise in the taking of physical inventories to count, list, price, and subsequently compute the total dollar amount of inventory on hand at the date of the physical count. For example, such external inventory-taking firms are often used by entities such as retail stores, hospitals, and automobile dealers.

1. SAS No. 144 amends AU-C 501 to do the following:

- a) Eliminates reference to using the work of an external inventory-taking firm as using the work of a management's specialist, and to provide further guidance on the auditor's responsibility when an external inventory-taking firm is engaged.
2. The general rule in AU-C 501 is that if inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by doing the following:
 - a) Attending physical inventory counting, unless impracticable, to:
 - Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting
 - Observe the performance of management's count procedures
 - Inspect the inventory, and
 - Perform test counts.
 - b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.
3. SAS No. 144 amends AU-C 501 to clarify the auditor's responsibility when an external organization is engaged to take a physical inventory count as follows:
 - a) If an external inventory-taking firm is engaged and issues a report on the physical inventory counts, the report of an external inventory-taking firm about the work it performed does not, by itself, provide the auditor with sufficient appropriate audit evidence.
 - b) If inventory is material to the financial statements, the auditor is required to perform certain procedures regarding the existence and condition of inventory that may include:
 - Examine the external inventory-taking firm's program
 - Observe its procedures and controls
 - Make or observe some physical counts of the inventory
 - Recompute calculations of the submitted inventory on a test basis, and
 - Apply appropriate tests to the intervening transactions.
 - c) Although the auditor may adjust the extent of the work on the physical count of inventory because of the work of an external inventory-taking firm, any restriction imposed on the auditor such that the auditor is unable to perform the procedures that the auditor considers necessary is a scope limitation. In such cases, AU-C 705 requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.

Change 3: Auditor's responsibility for the work of a management's specialist

SAS No. 144 amends AU-C 501 to make changes to the guidance related to an auditor evaluating the work of management's specialist.

1. If information to be used as audit evidence has been prepared using the work of a management's specialist, the auditor should, to the extent necessary, taking into account the significance of that specialist's work for the auditor's purposes, perform the following:

Step 1: Evaluate the competence, capabilities, and objectivity of a management's specialist

Step 2: Obtain an understanding of the work of a management's specialist

Step 3: Evaluate the appropriateness of a management's specialist's work as audit evidence for the relevant assertion

Step 1: Evaluate the competence, capabilities, and objectivity of a management's specialist

The first step that an auditor should take is to evaluate the competence, capabilities and objectivity of the management's specialist. AU-C 501, as amended by SAS No. 144, offers the following guidance:

1. The nature, timing, and extent of audit procedures with regard to the requirement to evaluate the competence, capabilities, and objectivity of the management's specialist may be affected by matters such as the following:
 - The nature and complexity of the matter to which the management's specialist relates
 - The risks of material misstatement of the matter
 - The availability of alternative sources of audit evidence
 - The nature, scope, and objectives of the work of the management's specialist
 - Whether the management's specialist is employed by the entity or is a party engaged by it to provide relevant services
 - The extent to which management can exercise control or influence over the management's specialist (including, when applicable, the organization that employs the individual specialist), thereby influencing the work of the management's specialist
 - Whether the management's specialist is subject to technical performance standards or other professional or industry requirements
 - The nature and extent of any controls within the entity over the work of the management's specialist
 - The auditor's knowledge and experience of the field of expertise of a management's specialist, and
 - The auditor's previous experience of the work of that specialist.
2. The auditor is required to obtain more persuasive audit evidence with regard to the requirement to evaluate the competence, capabilities, and objectivity of the specialist as the:

- a) Significance of the management's specialist's work, the risk of material misstatement at the relevant assertion level, or the ability of management to affect the specialist's judgments increases, or
- b) The competence, capabilities, and objectivity possessed by the specialist in the particular field decreases.

Step 2: Obtaining an understanding of the work of a management's specialist

AU-C 501, as amended by SAS No. 144, requires an auditor to take a second step by obtaining an understanding of the work of the management's specialist, based on the following guidance:

1. When evaluating the objectivity of a specialist engaged by the entity, it may be relevant to discuss with management and that specialist any interests and relationships that may create threats to the specialist's objectivity and any applicable safeguards, including any professional requirements that apply to the specialist, and to evaluate whether the safeguards are adequate.
 - a) Relevant information may be obtained by the auditor from procedures performed in accordance with AU-C 550, Related Parties. Interests and relationships creating threats may include the following:
 - Financial interests
 - Business and personal relationships between the entity and the individual specialist between the entity and the organization that employs the individual specialist, and
 - Provision of other services.
2. In understanding the work of the management's specialist, an auditor must obtain an understanding of the specialist's relevant field of expertise.
 - a) An understanding of the relevant field of expertise may be obtained in conjunction with the auditor's determination of whether the auditor has the expertise to evaluate the work of the management's specialist or whether the auditor needs an auditor's specialist for this purpose.
 - b) Aspects of the field of the management's specialist relevant to the auditor's understanding may include:
 - Whether the specialist's field has areas of specialty within it that are relevant to the audit
 - Whether any professional or other standards and regulatory or legal requirements apply
 - What assumptions and methods are used by the management's specialist and whether they are generally accepted within that specialist's field and appropriately applied under the applicable financial reporting framework, and