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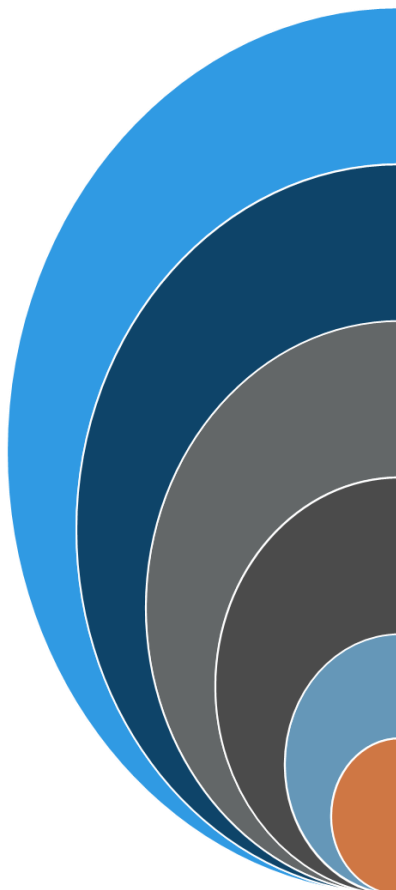
Georgia Department
of Audits & Accounts

SAS 145 KEY CHANGES AND ENHANCED GUIDANCE

Deficiencies in the auditor's risk assessment procedures are a common issue identified by practice monitoring programs in the United States and worldwide. In 2020 U.S. peer reviews, the currently effective AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, was the leading source of matters for further consideration.

SAS No. 145 does not fundamentally change the key concepts underpinning audit risk. Rather, it clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality.

Source: AICPA SAS 145 At a glance – "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement"



New Requirement:

Separately assess inherent risk and control risk

New Requirement:

"Maximum" control risk when controls are not tested for effectiveness. Thus, the risk of material misstatement is the same as the assessment of inherent risk.

Enhanced Guidance:

On assessing the risks arising from the entity's use of IT

New Requirement:

Risk assessment stand-back drives an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures

Revised Definition:

Significant risk

New Guidance:

Maintaining professional skepticism



RISK ASSESSMENT – IMPLEMENTING SAS 145

Accurately assessing inherent risk is a critical step in the audit process. If you assess risk incorrectly, you may perform the wrong procedures, obtain incorrect results, and issue the wrong opinion.

Inherent risk assessment remains the cornerstone for constructing an efficient and effective audit. The identified risks form the basis for further audit procedures, making identifying these risks crucial in determining what you need to do.

Risk Assessment Matrix Example

LIKELIHOOD		SIGNIFICANCE & MAGNITUDE		INHERENT RISK	CONTROL RISK	RISK OF MATERIAL MISSTATEMENT	AUDIT APPROACH
Misstatement is reasonably possible? <i>**Consider the degree to which the Inherent Risk Factors affect an assertion's susceptibility to misstatement**</i>	The transactions, balances, or disclosures subject to the identified risk at the assertion level are quantitatively or qualitatively material.	Relevant Assertion & Significant Audit Area	Probability of misstatement(s) being material. <i>**Consider the degree to which the Inherent Risk Factors affect an assertion's susceptibility to misstatement**</i>				
Yes <i>("Reasonably possible" means there is more than a remote chance of a misstatement occurring, but it does not necessarily suggest a high probability.)</i>	Material <i>(For one or more Opinion Units)</i>	Yes	High/Significant <i>(Considerable chance/high probability of material misstatement)</i>	High (Significant Risk)	High	High (Significant Risk)	Extended Procedures: Basic substantive procedures plus selected extended procedures or specific procedure(s) that are responsive to the significant risk of material misstatement.
			Moderate <i>(Elevated probability of material misstatement. **Auditor's rationale must be documented**)</i>	Moderate	Low	Moderate	Basic Procedures (Tailoring Required): Nature, timing & extent of basic procedures are tailored to address increased risk.
			Low <i>(More than a remote probability of material misstatement. **Auditor's rationale must be documented**)</i>	Low	High	Low	Basic Procedures: Basic audit program procedures (which include substantive analytical procedures and some tests of details)
	Less than Material <i>(For ALL Opinion Units)</i>	No	Not Relevant	Limited Procedures: Preliminary analytical procedures, other risk assessment procedures, and final analytical procedures. <i>(Note: This approach is NOT appropriate for significant audit areas)</i>			
No <i>(Remote chance of a misstatement occurring)</i>	Not Relevant						