

## Center for Plain English Accounting

AICPA's National A&A Resource Center

### **SAS 145** **New Risk Assessment Standard**

On October 12, 2021, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. The full text of SAS 145 can be obtained [here](#). SAS 145 clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement. SAS 145 includes, among other things, the following:

- Revised requirements to evaluate the design of certain controls within the control activities component, including general IT controls, and to determine whether such controls have been implemented.
- New requirement to separately assess inherent risk and control risk.
- If the auditor does not plan to test the operating effectiveness of controls, a requirement for the auditor to assess control risk at the maximum level such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk.
  - In other words, tests of the operating effectiveness of controls are required to support a control risk assessment below the maximum level.
- A revised definition of significant risk.
  - The new definition in SAS 145 focuses on those risks 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.
- A revised definition of a relevant assertion, to clarify that an assertion about a class of transactions, account balance, or disclosure is relevant when it has an identified risk of material misstatement, taking into account the likelihood and magnitude of a misstatement.
  - The existing definition of relevant assertion is “A financial statement assertion that has a reasonable possibility of containing a misstatement or

misstatements that would cause the financial statements to be materially misstated. The determination of whether an assertion is a relevant assertion is made without regard to the effect of internal controls.

- New guidance on scalability.
  - Complexity of an entity’s activities and its environment, including its system of internal control, is the primary driver of scalability in the application of SAS 145. SAS 145 has removed the “Considerations Specific to Smaller Entities” sections previously included in the application material but has incorporated most of that content elsewhere in the standard, as appropriate, together with further revisions to promote scalability.
  - The AICPA Guide, *Assessing and Responding to Audit Risk in a Financial Statement Audit*, will be revised to reflect SAS 145. We expect that Guide to be helpful to practitioners who must “scale” and apply the provisions of SAS 145 to audits of small businesses.
- New guidance on maintaining professional skepticism.
- A new “stand-back” requirement intended to drive an evaluation of the completeness of the identification of significant classes of transactions, account balances, and disclosures by the auditor.
  - For material classes of transactions, account balances, or disclosures that have not been determined to be significant classes of transactions, account balances, or disclosures (that is, there are no relevant assertions identified), SAS 145 requires the auditor to evaluate whether the auditor’s determination remains appropriate.
- Revised requirements relating to audit documentation.
  - SAS 145 audit documentation requirements include the following new requirements:
    - Documentation of the evaluation of the design of identified controls and determination of whether such controls have been implemented.
    - The rationale for significant judgments made regarding the identified and assessed risks of material misstatement.
- A conforming amendment to perform substantive procedures for each relevant assertion of each *significant* class of transactions, account balance, and disclosure, regardless of the assessed level of control risk (rather than for all relevant assertions related to each *material* class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement, as previously required)

As the effective date approaches, the CPEA will be preparing reports and conducting webcasts that will unpack the requirements and guidance contained in SAS 145, that will help our members understand what they need to do related to this new standard.

## Effective Date and Transition

SAS 145 takes effect for audits of financial statements for periods ending on or after December 15, 2023.

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