



2023 SUMMER CPE SYMPOSIUM: HOT TOPICS IN HEALTHCARE

Not-for-Profit: Risk Assessment - SAS No. 145 Updates

Session 4 | June 23, 2023

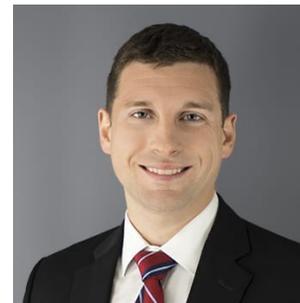
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WE ARE AN INDEPENDENT MEMBER OF HLB—THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Introductions



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Agenda

1. General overview of Statement on Auditing Standards (SAS) No.145
 - a) *Definitional and process changes to risk assessments*
 - b) *Scalability of risk assessment process to organizational complexity*
 - c) *Enhanced guidance surrounding general information technology (IT) controls*
2. Auditee organization readiness for future audits under SAS No. 145

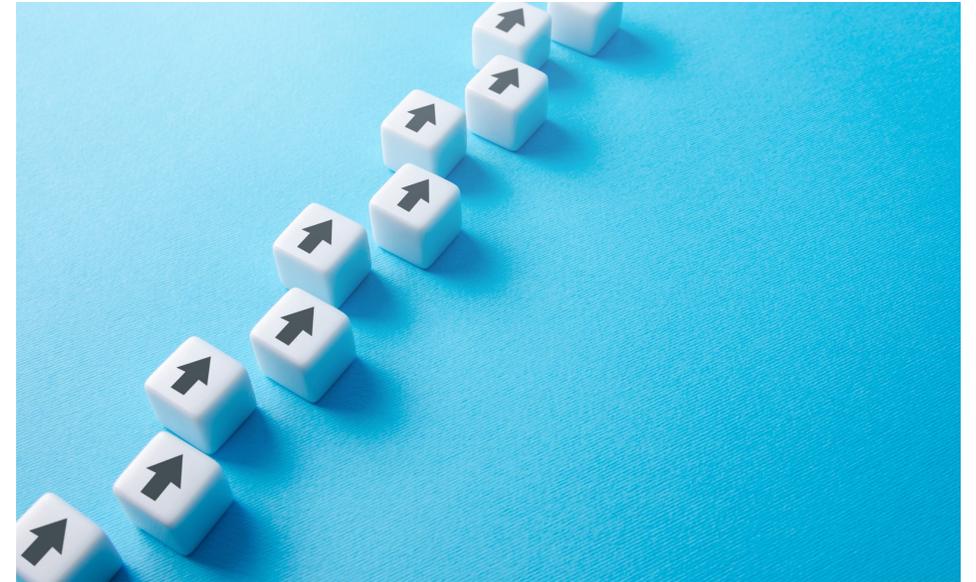
SAS 145 No. Introduction and Background

- Statement on Auditing Standards (SAS) No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- Supersedes SAS No. 122
- Issued in 2021
- Effective for audits of financial statements periods ending on or after December 15, 2023



SAS No. 145 Roadmap

- SAS No. 145 does not fundamentally change the key concepts underpinning audit risk
- Convergence with International Standards on Auditing (ISAs)
- Created in response to common peer review deficiencies
- Modernization of audit guidance for an evolving business environment



Key Enhancements to the Risk Assessment Process

- Obtaining an understanding of the entity's system of internal control
- Internal control terminology
- Separate inherent and control risk assessments
- Assessing control risk at the maximum level
- Definition of significant risk
- Stand back requirement
- Communication of internal control related matters

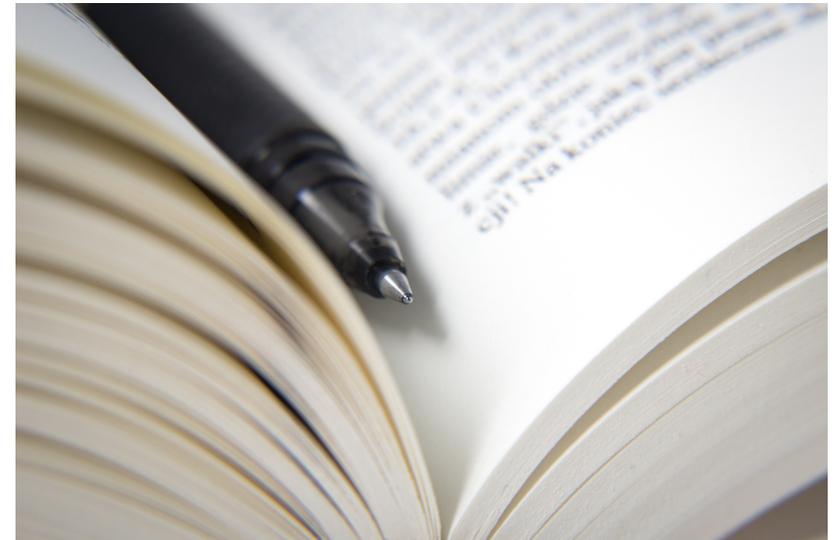
Components of a System of Internal Control

- SAS No. 145 clarifies that the overall understanding of an entity's system of internal controls is achieved by understanding and evaluating certain aspects of each of the following:
 - The control environment
 - The entity's risk assessment process
 - The entity's process to monitor the system of internal control
 - The information system and communication
 - Control activities



Changes to Internal Control Terminology

- Throughout Generally Accepted Auditing Standards the term *internal controls* has been changed to *system of internal controls*
- The term *controls* has been modified to add the following text to the definition:
 - “*Policies or procedures* that an entity establishes to achieve the control objectives of management or those charged with governance. In this context:
 - *Policies* are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
 - *Procedures* are actions to implement policies.”



Audit Risk Model Considerations

- Audit Risk = Inherent Risk X Control Risk X Detection Risk
- SAS No. 145 changes to risk assessment include:
 - Requirement to assess inherent risk and control risk separately
 - Requirement to assess control risk at the maximum level when control operating effectiveness is not tested
 - Revised definition of *significant risks*
 - No longer based on the audit response (i.e. does a risk require special audit consideration)
 - Now identified as a risk with an assessed inherent risk close to the upper end of the scale



Additional Key Guidance Changes

- SAS No. 145 introduces a new stand-back requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures
- SAS No. 145 introduces new explicit requirements related to communicating identified control deficiencies



Scalability of SAS No. 145

- SAS No. 145 includes scalability guidance using the complexity of an auditee entity's activities and its environment, including its system of internal control, as the primary driver of the nature and extent of risk assessment procedures
- In a corresponding move, SAS No. 145 has removed "Considerations Specific to Smaller Entities" sections previously included in risk assessment guidance
- SAS No. 145 recognizes that some aspects of the entity's system of internal control may be less formalized but still present and functioning
- Risk assessment procedures such as inquiries and observation may be appropriate when an entity's systems and processes lack formality



General Information Technology (IT) Controls



- SAS No. 145 introduced definitions for the following:
 - *Risks arising from the use of IT*: Susceptibility of information-processing controls to ineffective design or operation, or risks to the integrity of information in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes.
 - *General IT controls*: Controls over the entity's IT processes that support the continued proper operation of the IT environment.

General IT Controls - Continued



- Expanded requirement for the auditor to identify general IT controls that address the risks arising from the use of IT and to evaluate their design and determine their implementation
- New explicit requirement to understand the use of IT in the entity's structure, ownership and governance, and business model
- General IT controls do not need to be identified for every IT process

Appendix E - Considerations for Understanding IT

- Appendix E to SAS No. 145 includes guidance that may be relevant in identifying IT applications and other aspects of the IT environment that may be subject to risks arising from the use of IT
 - Manual or automated controls
 - System generated reports
 - End-user computing
 - Emerging technologies
 - Scalability



Preparing for Audits Under SAS No. 145

- Update internal risk assessments
- Modify internal control policies and procedures to address key IT processes
- Additional internal control testing and walkthroughs
- Familiarity with new terminology

How Can We HELP?





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