

## **Risk Assessment Standards (SAS Nos. 104-111) Client Talking Points**

The AICPA Employee Benefit Plan Audit Quality Center ([www.aicpa.org/ebpqac](http://www.aicpa.org/ebpqac)) has prepared these talking points to assist Center member firms in communicating with their clients about the effects on EBP audit engagements of recently issued auditing standards, Statements on Auditing Standard (SAS) Nos. 104-111, also known as the Risk Assessment Standards. These standards went into effect for all financial statement audits for periods beginning on or after December 15, 2006. As the new standards will affect several aspects of your EBP audit engagements, the Center encourages you to communicate early—preferably well in advance of commencement of the audit engagement—with your EBP clients about how they will affect the audits you perform. Following is a list of points you may wish to discuss with your EBP clients:

### ***Changing Environment***

- ✓ The business environment is constantly changing and evolving, which creates new challenges and risks in the audit environment. In response to those changes, the CPA profession has undertaken an ongoing effort to develop stronger and more definitive auditing standards intended to continue to enhance auditor performance and thereby improve audit effectiveness.
- ✓ As part of this effort, the AICPA has issued eight new auditing standards that our firm is required to implement this year, which will change certain aspects of our employee benefit plan audits. Some of those changes may be significant.

### ***Increased Emphasis on Identifying and Assessing Risk of Material Misstatements in Financial Statements***

- ✓ Overall the new SASs change the audit process as follows:
  - Expand the quality and depth of the auditor's required understanding of the entity and its environment, including its internal control.
  - Require the auditor to assess the risks of material misstatements at the financial statement level and at the assertion level on all audits based on the understanding obtained.
  - Requires the auditor to have a basis for the risk assessment, which should encourage testing of controls if practical.
  - Emphasize importance of the entity's risk assessment process.
  - Strengthen the linkage between assessed risks and the auditor's responses to those risks.
  - Clarify the auditor's ability to rely on audit evidence gathered in prior audits.
  - Strengthen guidance for testing disclosures.
  - Clarify and expands guidance on evaluating audit findings.
  - Expand documentation requirements.
- ✓ Our audit approach will be more tailored to your plan, its environment, and its internal control, and the audit procedures will focus more directly to assessed risks. This may allow us to identify areas for improvements in your internal control.
- ✓ Given that the new standards require us to gain a deeper understanding of your environment and

controls, you can expect us to conduct a more detailed review of the environment in which your plan operates and your financial processes and transaction cycles, and to increase our documentation over these areas.

- ✓ The changes required by these standards will require additional hours on the part of my engagement team and, most likely, will require us to spend more time with plan personnel to obtain the necessary information. You can improve the audit process by ensuring the internal control and documentation over functions that are, or may be, relevant to your financial statements are strong.
- ✓ The process of documenting your internal control policies and procedures should begin now. The AICPA Employee Benefit Audit Quality Center's Plan Advisory, [\*The Importance of Internal Controls in Financial Reporting and Safeguarding Plan Assets\*](#), can help you better understand this process. The document provides an overview of the basics of internal control and discusses why internal control is important to your plan, how to establish cost-effective controls, the importance of monitoring your controls, and provides other useful information, including examples of controls for your plan.

**Other**

- ✓ We are committed to work with you in addressing any questions you may have related to these new standards, your internal controls, or your upcoming audit. If you would like to schedule a meeting to discuss any questions you may have, please feel free to contact me at *[insert contact information]*.

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For more information and Center tools, visit the EBPAQC website at [www.aicpa.org/ebpaqc](http://www.aicpa.org/ebpaqc).