STATEMENT ON AUDITING STANDARDS No. 104—No. 111

RISK ASSESSMENT STANDARDS

Issue Date: March 2006

Effective Date: The Statements will be effective for audits of financial statements for periods beginning on or after December 15, 2006. Early adoption is permitted.

Product Order Information: The Standards and related products are at www.cpa2biz.com/risk.

SUMMARY

The AICPA’s Auditing Standards Board (ASB) has issued eight Statements on Auditing Standards (SAS) relating to the assessment of risk in an audit of financial statements:

- SAS No. 104, Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures (“Due Professional Care in the Performance of Work”)
- SAS No. 105, Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards
- SAS No. 106, Audit Evidence
- SAS No. 107, Audit Risk and Materiality in Conducting an Audit
- SAS No. 108, Planning and Supervision
- SAS No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- SAS No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- SAS No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling

These Statements establish standards and provide guidance concerning the auditor’s assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these Statements is to enhance auditors’ application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
• Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

In developing these Statements, the ASB worked in concert with the International Auditing and Assurance Standards Board of the International Federation of Accountants and, therefore, the project was representative of the effort among standard-setters to promote the convergence and acceptance of an international set of auditing standards. Finally, the Statements represent part of the ASB’s ongoing effort to develop stronger and more definitive auditing standards that are intended to enhance auditor performance and thereby to improve audit effectiveness.