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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's Guide to Audit Risk Assessment

Thirteenth Edition (September 2018)

Highlights of this Edition

The following are some of the important new features of the 2018 Edition of *PPC's Guide to Audit Risk Assessment*:

- **Updated Case Studies and Practice Aids.** Since you will be performing risk assessment using PPC audit guides, you and your staff want to have complete confidence that you thoroughly understand PPC's forms and are filling them out correctly. The illustrative practice aids in *PPC's Guide to Audit Risk Assessment* used for staff training are compatible with the practice aids your staff will use on their audit engagements. Your *Guide* includes updated case studies, which illustrate many of the key PPC forms that are required for your audit engagements. You'll find that these realistic case studies are an invaluable tool for demonstrating how to properly perform and document risk assessment and comply with other professional requirements.
- **Revenue Recognition Standard Implementation.** This edition of the *Guide* has integrated the new revenue recognition accounting standards in FASB ASC 606, *Revenue from Contracts with Customers*, including discussion of specific implementation issues, along with many updated programs and practice aids with new procedures and practical considerations, to help you navigate the transition.
- **Audit Quality.** Improving audit quality has been a topic of growing interest to regulators, standard setters, and practitioners. In this edition of the *Guide*, we discuss audit quality, including an update on projects and initiatives at the AICPA, common peer review findings, and actions auditors can take in the planning and risk assessment stages of their engagements to improve overall audit quality. As with our past editions, your *Guide* and its practice aids contribute to understanding quality audits by giving you the confidence that, when used properly based on the circumstances of each engagement, you are complying with auditing standards.

In addition to these featured items, your *Guide* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
GENERAL	1. Conformed terminology from "sales" to "revenue," as well as related terms, where deemed appropriate.	Various
CHAPTER 1 Introduction	1. Added footnote on revised definitions of attest client and client, as well as other targeted and narrow changes in various independence ethics interpretations. 2. Updated discussion on the AICPA initiative to enhance audit quality.	Paragraph 100.36 Paragraph 100.39

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 2 Risk Assessment Procedures and General Audit Planning	1. Expanded exhibit for risk assessment procedures and planning requirements for going concern uncertainties.	Exhibit 2-1
	2. Added footnote to discuss implementing FASB ASC 606, <i>Revenue from Contracts with Customers</i> , and the impact on the risk assessment and planning process.	Paragraphs 201.1, 201.7, 201.22, 201.42, 201.49, 202.37, 203.1, and 206.4
	3. Added a discussion on inquiries related to the entity's ability to continue as a going concern.	Paragraph 201.34
	4. Expanded the list of matters to be discussed during the engagement team discussion.	Paragraph 201.69
	5. Added information on the engagement team discussions related to revenue under FASB ASC 606.	Paragraphs 201.87–88
	6. Added a discussion on the AICPA's Technical Question and Answer, <i>Obtaining an Understanding of Internal Control Relevant to the Audit</i> (Q&A 8200.18).	Paragraph 203.4
	7. Added a discussion or footnote on the AICPA's Technical Question and Answer, <i>Obtaining an Understanding of the Controls Relevant to the Audit</i> (Q&A 8200.19).	Paragraphs 203.13, 203.17, and 203.44
	8. Added a discussion and footnotes on cybersecurity.	Paragraphs 203.34–37
	9. Added a footnote on the AICPA's Technical Question and Answer, <i>Obtaining an Understanding of the Business Processes Relevant to Financial Reporting and Communication</i> (Q&A 8200.17).	Paragraph 204.34
	10. Added a footnote discussing walkthroughs of significant revenue streams after the implementation of FASB 606, <i>Revenues from Contracts with Customers</i> .	Paragraphs 205.22 and 205.49
	11. Added a discussion on the AICPA's nonauthoritative guidance on control activities related to the audit including the AICPA's Technical Question and Answer, <i>Control Activities That Are Always Relevant to the Audit</i> (Q&A 8200.20), and the AICPA's Technical Question and Answer, <i>Control Activities That May Be Relevant to the Audit</i> (Q&A 8200.21).	Paragraphs 205.32–34
	12. Added a discussion and footnote on the presumption that the risk of fraud exists in revenue recognition.	Paragraph 205.47
	13. Revised the benchmarks and illustrative percentages related to planning materiality.	Exhibit 2-50
	14. Modified instructions.	Exhibit 2-51; Appendix 2A-1
	15. Updated the benchmarks and illustrative percentages in Table 2.	Exhibit 2-51; Appendix 2A-1

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	16. Expanded the practical considerations on selecting a benchmark.	Exhibit 2-51; Appendix 2A-1
	17. Added a footnote discussing the issuance of a proposed SAS, <i>Omnibus Statement on Auditing Standards—2018</i> .	Paragraph 207.20
	18. Updated the forms used in general planning for changes made in the 2018 editions of PPC audit guides.	Appendix 2A
CHAPTER 3 Assessing and Responding to Identified Risks—Developing the Detailed Audit Plan	1. Added a footnote or discussion on FASB ASC 606.	Paragraphs 301.1, 305.8, and 305.13; Appendix 3B-2
	2. Added a discussion on revenue-related fraud risk under FASB ASC 606.	Paragraph 303.32
	3. Expanded the list of factors that might be considered in assessing inherent risk.	Paragraph 305.25
	4. Added a discussion on assessing inherent risk of related account balances.	Paragraph 305.27
	5. Clarified the PPC audit program approach.	Paragraph 305.36
	6. Revised the instructions and the documentation tables for assessing the risk of material misstatement at the relevant assertion level.	Appendixes 3A-1 and 3A-2
	7. Added an example of a substantive procedure.	Appendix 3B-1
CHAPTER 4 Further Audit Procedures and Other Matters	1. Added a footnote discussing data analytics as part of audit planning and the AICPA Guide entitled <i>Guide to Audit Data Analytics</i> .	Paragraph 401.23
	2. Added a discussion on the AICPA Audit and Accounting Guide, <i>Revenue Recognition</i> .	Paragraph 403.13
	3. Added an example about the reliability of audit evidence.	Paragraph 403.15
	4. Added a footnote discussing FASB ASC 606.	Paragraphs 403.37 and 403.40
	5. Expanded the discussion on substantive procedures for income statement accounts relating to revenue recognition.	Paragraphs 403.39–.40
	6. Expanded the discussion on responding to fraud risks.	Paragraph 403.55
APPENDIX A Case Study 1—Completed Practice Aids	1. Updated the case study for changes made to the practice aids and audit programs in the 2018 editions of PPC audit guides.	Appendix A

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
<p>APPENDIX B Case Study 2– Illustrative Documentation</p>	<p>1. Updated the case study for changes made to the practice aids and audit programs in the 2018 editions of PPC audit guides.</p>	<p>Appendix B</p>
<p>APPENDIX C Case Study 3– Completed Practice Aids</p>	<p>1. Updated the case study for changes made to the practice aids and audit programs in the 2018 editions of PPC audit guides.</p>	<p>Appendix C</p>