Nov. 24, 2020

To:   CommentLetters@aicpa-cima.com

Re:   Proposed Statement on Auditing Standards Understanding the Entity and Its Environment and Assessing the risks of Material Misstatement

The Accounting and Auditing Standards Task Force of the Maryland Association of Certified Public Accountants appreciates the opportunity to provide the following comments on this Exposure Draft:

1. Are the requirements and application material of the proposed SAS sufficiently scalable, that is, is the proposed SAS capable of being applied to the audits of entities with a wide range of sizes, complexities, and circumstances?

We believe the proposed SAS is scalable and the application material is sufficient to achieve that objective, however we feel there are still areas where it will be difficult to scale to smaller entities which could create issues for peer reviewers / other reviewers. We encourage the development of additional guidance that will help minimize differing interpretations between practitioners and peer reviewers.

3. Are the enhanced requirements and application material related to the auditor’s understanding of the IT environment, the identification of the risks arising from the entity’s use of IT, and the identification of general IT controls clear to support the auditor’s consideration of the effects of the entity’s use of IT on the identification and assessment of the risks of material misstatement?

Yes, it helps to add definition.

4. Do you support the introduction in the proposed SAS of the new concepts and related definitions of significant classes of transactions, account balances, and disclosures, and their relevant assertions?

Yes, we support.
Is there sufficient guidance to explain how they are determined (that is, that an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to that assertion), and how they assist the auditor in identifying where risks of material misstatement exist?

We are concerned that there is not enough clarity to be able to determine what assertions are relevant assertions and therefore what classes of transactions, account balances or disclosures are a significant class. We note that in paragraph 12 a relevant assertion is when there is an identified risk of material misstatement, which appears to be based on an inherent risk assessment. However, paragraph 31 says that for identified risks of material misstatement the auditor should assess inherent risk. We are therefore unclear about the definition of relevant assertion and whether inherent risk is part of determining that there is an identified risk of material misstatement and therefore a relevant assertion. Also, we do not think there is sufficient clarity about the term “reasonable possibility” in paragraph A.11. Some might interpret that as “more than remote” and therefore almost all assertions and all classes of transactions and account balances would be significant classes. The determination about significant classes and relevant assertions is critical to the required audit responses and therefore we believe these concepts should be better defined.

5. Do you support the introduction of the spectrum of inherent risk into the proposed SAS?

Yes, we support.

6. Do you support the separate assessments of inherent and control risk in relation to all risks of material misstatement at the assertion level?

Yes, we agree.

10. What are your views about the proposed stand-back requirement in paragraph 36 of the proposed SAS and the conforming amendments proposed to paragraph .18 of AU-C section 330?

We support as proposed.
11. What are your views with respect to the clarity and appropriateness of the documentation requirements?

Please see our comments under scalability in question 1. The guidance in A263 is very helpful. However, anything to make the expected minimum documentation requirements clearer would be helpful to smaller practitioners.

We appreciate the effort by the AICPA Auditing Standards Board and the opportunity to provide these comments.

Sincerely,

Maryland Association of CPAs
Accounting & Auditing Standards Task Force

The following MACPA members reviewed and commented on the proposed Proposed Statement on Auditing Standards Understanding the Entity and Its Environment and Assessing the risks of Material Misstatement

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