November 24, 2020

American Institute of Certified Public Accountants
Auditing Standards Board
220 Leigh Farm Road
Durham, North Carolina 27707-8110

Anders Minkler Huber & Helm LLP (Anders) appreciates the opportunity to respond to the request for comment on the Auditing Standards Board (ASB) Proposed Statement on Auditing Standards issued August 27, 2020: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.

We understand the ASB’s strategic initiative to converge U.S. auditing standards with those of the International Auditing and Assurance Standards Board, and we are generally supportive of that initiative, to an extent. However, our clients do not typically participate in a high level of international business activities; therefore, the users of our clients’ financial statements often have considerably different needs than users of publicly traded entities’ financial statements. Furthermore, the litigious nature of our U.S. marketplace, which is also vastly different than that of the global market, truly warrants certain auditor protections. We feel that certain aspects of the proposal do not adequately protect the auditor from these threats.

We have significant and fundamental concerns with certain aspects of the proposal, and we have outlined our most serious concerns below. We have also responded to the request for specific comments below.

- Our most significant concern relates to the question of scalability. The requirements of the proposed SAS are not sufficiently scalable without the addition of the application material. The ASB should consider adding some of the application material to the proposed standard along with some guidance on what is required, at a minimum, for less complex entities. The ASB also should consider adding more guidelines for what constitutes a less complex entity. Without this guidance, we believe inconsistencies in practice will occur.

Anders responses to specific requests for comment are as follows:

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?

   Anders response: As discussed in our general comment, we feel the requirements are somewhat vague, and it is difficult to understand what would be required for less complex entities. While the application materials do provide some guidance, we feel the requirements themselves should offer the "Considerations Specific to Smaller Entities" and minimum requirements for all entities.
2. Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks of material misstatement? Specifically:
   a. Have the requirements related to the auditor’s understanding of each component of the entity’s system of internal control been appropriately enhanced and clarified? Is it clear why the understanding is obtained and how this informs the risk identification and assessment process?
   b. Have the requirements related to the auditor’s identification of controls that address the risks of material misstatement been appropriately enhanced and clarified? Is it clear how controls that addressed the risks of material misstatement are identified, particularly for audits of smaller and less complex entities?
   c. Given that COSO’s 2013 *Internal Control – Integrated Framework* (COSO framework) is often used by entities subject to the AICPA’s generally accepted auditing standards, is the terminology in paragraphs 21-27 and related application material of the proposed SAS clear and capable of consistent interpretation for audits of entities that use the COSO framework?

Anders response: We believe the standard should more clearly describe how to link specific audit procedures based on the assessment of the risks of material misstatement. We think the requirements related to the auditor's understanding of each component of the entity's system of internal control indicate that the auditor is required to understand the entity more than management. The ASB should consider providing more clarity on what is required to understand. We do not wish to comment on the consistency of the proposed SAS and related application material to the COSO framework.

3. Are the enhanced 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?

Anders response: We understand the intention of the requirement but find the scope and scalability are unclear. The ASB should consider providing details of what at a minimum needs to be understood of the IT environment. Based on the scalability considerations, some engagements would not need any understanding of the IT environment.

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? 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 assertions), and how they assist the auditor in identifying where risks of material misstatement exist?

Anders response: We believe this is not significantly different than what is done currently in practice. We feel the revisions make it more clear that you can have nonsignificant classes of transactions.
5. **Do you support the introduction of the spectrum of inherent risk into the proposed SAS?**

   Anders response: We believe the introduction of the spectrum of inherent risk will lead to inconsistencies and divergence in practice. The linkage to audit procedures will be too vague to understand and there is not enough context on what a spectrum consists of (low/med/high, 1-10, low/low-med/med/med-high/high, a moving dot on a line) and how to use it.

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

   Anders response: We support the separate assessment of inherent and control risk in relation to all risks of material misstatement at the assertion level.

7. **What are your views regarding the clarity of the requirement to assess the control risk, in particular, when the auditor does not plan to test the operating effectiveness of controls?**

   Anders response: We believe this is not any different than what we are currently doing but clarifies that an understanding of the design and implementation of controls is required.

8. **What are your views regarding the clarity of the requirement in paragraph 26d of the proposed SAS to evaluate design and determine implementation of certain control activities (including, specifically, the requirement related to controls over journal entries)?**

   Anders response: We believe that the requirements in paragraph 26d are clear regarding evaluating the design and implementation of certain control activities, including journal entries.

9. **Do you support the revised definition, and related material, on the determination of significant risks? What are your views on the matters previously presented relating to how significant risks are determined based on the spectrum of inherent risk?**

   Anders response: We are in agreement with the revised definition, and related material, on the determination of significant risks. We would encourage the ASB to be more specific in application material and implementation guides on how significant risks are determined based on the spectrum of inherent risk. We believe this will be interpreted differently based on the auditor, leading to inconsistencies in practice.

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?**

    Anders response: We are in agreement with the stand-back requirement in the general sense. We believe that the proposed stand-back requirement is vague in what is required to be done to meet the standard. Interpretation of this requirement could result in redoing the risk assessment and adding procedures, which we believe is not the intention. Either in the application material or implementation guides, we believe the ASB should provide clear examples for how the stand-back requirement applies when there is a clean audit versus when there were significant adjustments and what the documentation entails. This would make sure the standard is consistently applied in practice.
11. What are your views with respect to the clarity and appropriateness of the documentation requirements?

Anders response: We believe this is not any different than what is currently required. However, paragraph A263 of the application material is worded poorly, in that it provides for a practitioner not to document certain basic audit considerations that should be documented by auditors of less complex entities. There should be a minimum documentation that doesn't take into consideration the complexity of the entity.

Again, we appreciate the opportunity to comment and we look forward to the Board's future work on these and other professional standards.

Respectfully submitted,

[Signature]

ANDERS MINKLER HUBER & HELM LLP
Certified Public Accountants