I am a New Jersey CPA and I appreciate the chance to comment on the proposed Statement on Auditing Standards (SAS) referred to above.

Overall
I understand there are weaknesses in the practice of obtaining an understanding of internal control and appreciate the AICPA’s plan to improve audit quality. Over the years auditor’s risk assessment procedures have become overwhelming, time consuming and driven by practice aides. I believe obtaining an understanding of internal control and assessing risk is a skill involving an art and a science, which is ultimately a product of experience and professional judgement.

I appreciate your consideration reading this letter because I took a lot of time preparing the following comments.

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

RESPONSE
I believe the requirements and application material of the proposed SAS are capable of being applied to all entities. Accomplishing this includes leadership, education, and proper resources. I believe auditors may be inclined to take a - Same as Last Year (SALY) approach to address the cost effectiveness of additional procedures described in the proposed SAS. I believe scalability problems are likely – however the proposed SAS provides enough guidance.

Request for Comment 2 – III. Understanding the Entity’s System of Internal Control
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 assessment process?

**RESPONSE**
I believe it is important to take a consistent approach when obtaining an understanding of each component of the entity’s system of internal control. I believe the requirements of the proposed SAS are clear.

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?

**RESPONSE**
I believe these requirements are clear.

c. Given the 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 entities that use the COSO framework?

**RESPONSE**
The COSO framework includes six attributes – Governance, Strategy, Planning, Execution, Monitoring and Adapting. I believe auditors of entities using the COSO framework should consider what the entity looks to achieve (the mission) when performing risk assessment procedures as well as how the entity is adapting to changing environments. However, I believe the terminology is clear.

Request for Comment 3 – Enhanced Guidance Related to IT
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?

**RESPONSE**
I believe the IT environment should be arranged to accomplish the entity’s goals. It is important for auditors to identify current and developing risks coming from the entity’s use of IT. I believe the enhanced requirements related to the auditor’s understanding of the IT environment are clear. I appreciate the application material included in the proposed SAS.
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 assertion), and how they assist the auditor in identifying where risks of material misstatement exist?

RESPONSE
I believe professional judgement is critical when identifying a significant transaction, account balance or disclosure, and the relevant assertions. I believe introducing more concepts adds to the complexity of the proposed SAS whereas an emphasis on professional judgement and examples may be more helpful.

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

RESPONSE
If considering a spectrum as two extreme points when identifying a risk in the proposed SAS, I believe professional judgement always takes precedence. I do not support or oppose the introduction of the spectrum of inherent risk into the proposed SAS.

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

RESPONSE
I believe professional judgement is important to emphasis because it plays a major part in determining risk. I believe separate assessments of inherent and control risk in relation to all risks of material misstatement at the assertion level is not necessary.

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?

RESPONSE
With all due respect - I did have to read the material a few times, but it eventually became clear about the requirement to assess control risk when the auditor does not plan to test the operating effectiveness of controls. I believe D&I should be well defined and the text of the proposed SAS should be simplified.

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)?

RESPONSE
I believe the auditor should use professional judgement in determining the nature, timing, and extent of testing of journal entries. I believe the requirement of paragraph 26d is clear.
Request for Comment 9 – Significant Risks
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?

RESPONSE
As mentioned above I believe professional judgement is necessary to determine significant risk. Considering differences in professional judgement are likely to happen when determining significant risk, I do not support or oppose the revised definition and related material on the determination of significant risks.

I believe determining significant risks is not affected by introducing a spectrum of inherent risk.

Request for Comment 10 – Stand-Back and Paragraph .18 of AU-C section 330
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?

RESPONSE
I believe if the auditor has concluded material classes of transactions, account balances, or disclosures have been determined not to be significant classes of transactions - then the auditor’s professional judgement should prevail over requiring a stand-back evaluation.

Request for Comment 11 – V. Audit Documentation
What are your views with respect to the clarity and appropriateness of the documentation requirements?

RESPONSE
I believe audit documentation is important and is typically achieved using practice aides. Audit documentation should be helpful in determining the auditor’s reasoning about their conclusions. When using practice aides audit documentation can become redundant and fail to achieve the purpose. Audit documentation should be evaluated before being recorded as part of audit evidence. Otherwise I believe the audit documentation requirements are clear and appropriate.

I appreciate the AICPA for requesting my professional views on the Proposed Statement on Auditing Standards and thank you for your consideration.

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