AICPA Auditing Standards Board  
CommentLetters@aicpa-cima.com

To Whom It May Concern,

We appreciate the opportunity to respond to the AICPA Auditing Standards Board (Board)’s exposure draft of a proposed Statement on Auditing Standards (SAS) entitled *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Overall, we believe the proposed SAS does clarify the applicable standards, but we also identified opportunities to improve conciseness and eliminate redundancies to strengthen overall understandability. We also encourage the Board to consider whether the proposed SAS will be effective in improving audit quality or whether the breadth of guidance provided is more comprehensive than necessary.

We have incorporated feedback on the specific aspects of the proposed interpretation request for comment as included below

**Requests for Comment**

**Request for Comment 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 requirements and application material to be sufficiently scalable and appreciate the reinforcement of scalability as it relates to entities of various size and complexity.

**Request for Comment 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?

We believe there is a lack of clarity and further examples are needed for identifying the risks of material misstatement. Conventional practice has historically been to identify material transactions, account balances, and disclosures and assess the risk of material misstatement within that activity. The proposed statement appears to have transitioned the applicability of the risk assessment requirements to significant, rather than material, activity. It is unclear to us how materiality and significance interrelate or the primary factors that would allow an auditor to differentiate between low inherent risk and no reasonable possibility of material misstatement. If the goal of the proposed statement is to improve the risk assessment process, the wording “reasonable possibility” included in Paragraph A207 may undermine the objective of the statement by providing practitioners an excuse not to perform a sufficient assessment of risk based on judgment.

Request for Comment 5
Do you support the introduction of the spectrum of inherent risk into the proposed SAS?

We support the introduction of the spectrum of inherent risk into the proposed SAS. We believe the guidance around inherent risk factors will assist auditors in more effectively assessing risk and also alleviates the need for a separate identification and assessment of significant risks, as high levels of inherent risk are indicative of significant risks.

Request for Comment 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)?

We agree with the requirements proposed, but believe that the requirement is overly complex in its presentation. We suggest removing the phrase ‘based on controls identified in (a)’ from part (b) since control activities identified to address the risk of material misstatement at the assertion level may not necessarily relate to relevant IT applications. We further recommend combining parts (b) and (c) into one part covering the identification of relevant IT applications and related risks and controls.

Request for Comment 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?
Consistent with our response to Request for Comment 5, we question whether the determination of significant risk is still necessary with the introduction of the spectrum of inherent risk. If a detailed risk assessment is performed at the financial statement and assertion levels, and procedures are linked that are adequately responsive to those risks, we are not convinced that the subjective exercise of labeling certain risks as ‘significant’ will necessarily improve audit practice.

Request for Comment 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 believe the proposed stand-back requirement is unnecessary and is duplicative of other requirements, such as AU-C 330.A74 as well as general review and supervision requirements.

We appreciate the efforts of the AICPA Auditing Standards Board and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact Zachary Borgerding at (804) 362-8240 or me at (804) 362-6988.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts