November 18, 2020

American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement on Auditing Standards – *Understanding the Entity and its environment and assessing the risks of material misstatement*

Via email: CommentLetters@aicpa-cima.com

Dear Ms. Harding,

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical Committee of the FICPA and has reviewed and discussed the above referenced Proposed Statement on Auditing Standards (SAS). The FICPA has more than 19,600 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 26 members, of whom 42% are from local or regional firms, 19% are from large multi-office firms, 19% are sole practitioners, 4% are in international firms, 8% are in education, and 8% in industry. The Committee has the following comments related to the requests for comment from the Proposed SAS below:

1. On the issue of scalability of the Proposed SAS, the Committee believes that the wording throughout the Proposed SAS allows for sufficient flexibility of use by larger, complex entities and smaller and less complex entities. Specifically, the removal of the separate “Considerations Specific to Smaller Entities” and instead, incorporating it throughout the body of the text improves both readability and ease of applicability.

2. The Committee feels that the expanded and enhanced explanations relating to the internal control, and placing the understanding of the internal control in the context of risk assessment will bring clarity to the existing standard. Similarly the more comprehensive term “system of internal control” will highlight the interrelatedness of those components of internal control. Additional clarification related to the COSO framework, and the requirements related to the understanding of each component of the system as detailed in the Proposed SAS, particularly paragraph 26 is well described and potentially a good reference source.

3. The Committee believes the enhanced requirements for understanding the IT environment in relation to financial reporting is well-described in the Proposed SAS. The addition of Appendix E to provide specific guidance for the consideration of IT-related risks is beneficial and has practical value for the present. This may be an area to revisit and incorporate additional examples if there are significant changes in the IT environment from emerging technologies.
4. The Committee supports the introduction of the new concepts and related definitions, as included. The guidance provided appears to be sufficient for explanatory purposes; however, the addition of examples of the practical application of these concepts would be beneficial.

5. The Committee supports the introduction of the spectrum of inherent risk. There was considerable discussion among the Committee as to the application of these concepts on a practical level. Although the use of examples within the guidance can be misconstrued as a requirement, the Committee does believe that some practical application examples would be valuable for practitioners.

6. The Committee supports the separation of the risk assessment process between inherent risk and control risk at the assertion level.

7. The clarity of the requirement to assess control risk is outlined very clearly in the list of requirements, however additional clarity would be beneficial in other sections of the SAS. Specifically, as noted in paragraph 34 within the requirements section of the SAS, it is very clear how the auditor should assess control risk when test of controls will not be performed. The Committee noted that this clarity does not extend to the more detailed guidance later in the SAS. Specifically, in paragraphs A248 – A252, there is no mention of how the control risk should be assessed in the circumstance in which the auditor does not intend to test controls. Furthermore, this clarity is, again, not noted in the proposed adjustments outlined in Appendix G. While the intention is clear in the overall review of this SAS, the codified guidance should be updated to reflect this clarity to ensure that it properly reflects the intent of the Board.

8. The Committee found the requirements in paragraph 26d to be clear, including the requirement to understand the controls over journal entries.

9. The Committee supports the revised definition of significant risks. The Committee agrees that this new definition is more consistent with the concepts of the spectrum of applicable risks that were introduced previously.

10. The Committee agrees that the inclusion of the stand-back requirement in paragraph 36 will allow for a more comprehensive and complete risk assessment by including a provision for material classes of transactions that were not determined to be significant. The conforming amendments proposed to paragraph .18 of AU-C section 330 are sufficient to address the difference between paragraph 18 of ISA 330 and .18 of AU-C section 330.

11. The Committee concurs with the requirement for inclusion of key matters, and rationale for identifying certain risk assessments in audit documentation will provide significantly improved guidance on the required documentation. A full practice aid to walk through the key matters is requested in the future.
The Committee appreciates the opportunity to respond to the exposure draft. Members of the Committee are available to discuss any questions you may have regarding the responses in this letter.

Respectfully submitted,

Mike Jerman, CPA, (Vice Chair)

Committee members coordinating this response:
Katie Hardin, CPA
Poornima Srinivasan, CPA