



Agenda Item 5B

Omnibus SAS

Analysis of Responses

Comment letters received from the following:

- | | |
|----------------------------------------------|--------|
| 1. TIC | TIC |
| 2. Tennessee | TN |
| 3. Cherry Baekert | CB |
| 4. NASBA | NASBA |
| 5. Washington State Auditor | WSA |
| 6. Michigan Office of Auditor General | MI |
| 7. Florida Society of CPAs | FL |
| 8. BDO | BDO |
| 9. Illinois CPA Society | IL |
| 10. Association of Local Government Auditors | ALGA |
| 11. GT | GT |
| 12. Crowe Horwath - | Crowe |
| 13. North Carolina Association of CPAs | NC |
| 14. California Society of CPAs | CA |
| 15. Anders | Anders |
| 16. BakerTilly | BT |
| 17. PwC | PwC |
| 18. EY | EY |
| 19. KPMG | KPMG |
| 20. Laura Lindal | LL |

21. DT

DT

22. NSAA

NSAA

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| | | | General | |
| 1 | TIC | General | GENERAL COMMENTS TIC appreciates the effort the Auditing Standards Board (ASB) put forth to develop this proposed SAS. The ASB reviewed the three PCAOB auditing standards that were issued after the ASB's clarity project and, for each requirement in a PCAOB auditing standard that the ASB believes does not have an equivalent in GAAS, considered whether an amendment to GAAS was appropriate. TIC feels that as new PCAOB standards are issued, it is important for the ASB to consider whether similar changes should be required for private companies. | Noted |
| 2. | CB | General | Overall, we support the ASB's proposed standards and amendments and believe they will provide useful information to the users of financial statements, improve transparency, and improve the overall quality of audits. | Noted |
| 3. | BDO | General | We are supportive of the Auditing Standards Board's (ASB) efforts to converge with the International Standards on Auditing (ISAs) and avoid unnecessary differences with the auditing standards of the Public Company Accounting Oversight Board (PCAOB). | Noted |
| 4. | CB | General | We support the proposed additions outlined in the amendment, specifically as it relates to broader inclusion of significant unusual transactions into existing audit guidance. We feel additional communications will enhance inquiries made during the audit, and required conversations between the audit firm, audit client, component auditors, predecessor auditor and those charged with governance will all be enhanced. | Noted |
| 5. | DT | General | While D&T is overall supportive of the proposed SAS, we do have some comments and observations pertaining to AS 1301 and AS 2410 in the attached Appendices. D&T does, however, agree with the ASB's determination that no amendments are needed to GAAS resulting from the issuance of AS 2701, <i>Auditing Supplemental Information Accompanying Audited Financial Statements</i> . | Noted |
| 6. | ALGA | General | We have reviewed the exposure draft in its entirety and agree that the proposed statement will provide users with essential and consistent information, while enhancing guidance related to understanding and applying U.S. Generally Accepting Auditing Standards (GAAS). | Noted |
| 7. | ALGA | Use of phrase | In various sections, the phrase "entered into any significant unusual transactions" is used. This may be interpreted as the entity partnering with another entity/individual on a <i>new</i> contract. To help lessen potential misinterpretations, consider revising the phrase to read "participated in any significant unusual transactions." | Noted |
| 8. | CA | General | The Committee generally supports the board's project to make conforming changes and amendments to generally accepted auditing standards (GAAS) to conform with the three recently issued amendments by the PCAOB. Under Issue 3, question 3 (see below), we strongly disagree with the auditor having a requirement to evaluate the financial capabilities of other parties with respect to significant unusual transaction beyond what audit procedures the auditor determines necessary to obtain sufficient, competent evidence to support specific assertions in the financial statements. | Noted |
| 9. | KPMG | General | | Noted |

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| | | | <p>We agree with the proposed amendments to US GAAS (in consideration of PCAOB AS 1301, <i>Communication with Audit Committees</i> and AS 2410, <i>Related Parties</i>) to:</p> <ul style="list-style-type: none"> • define and use the term ‘significant unusual transactions’ consistently throughout US GAAS; • clarify the audit response to identified significant unusual transactions; • focus auditors on related parties and relationships and the risks associated with related party transactions; and • provide clarity and specificity in the requirements for communications to those charged with governance. <p>We also agree with the Board’s conclusion that no amendments to US GAAS are necessary to align with PCAOB AS 2701, <i>Auditing Supplemental Information Accompanying Audited Financial Statements</i>.</p> | |
| 10. | EY | General | <p>We support the ASB’s efforts to minimize unnecessary differences between its auditing standards and those of the Public Company Accounting Oversight Board (PCAOB) for related parties and communications with those charged with governance. Overall, we believe the proposed amendments would clarify the auditor’s responsibilities and enhance audit quality.</p> | Noted |
| 11. | PwC | General – Convergence | <p>The Omnibus exposure draft represents the first time the ASB is proposing changes to its standards solely to incorporate aspects of the PCAOB’s standards. The PCAOB standards considered as part of the ASB’s exercise have been effective for some time. We support the changes proposed in the exposure draft and do not expect them to result in a substantive change in the private company practice, except as described in the Appendix. In many cases, the ASB has decided to include additional application guidance to capture the content addressed in a PCAOB requirement. We believe this approach appropriately balances the objective of enhancing audit quality for audits of financial statements of private companies in an effective and efficient manner, while not being overly prescriptive.</p> <p>The ASB’s decision to make changes to its standards as a result of changes to the PCAOB’s standards represents a new element of its standard-setting process, as the Board has historically focused on convergence with the International Standards on Auditing (ISAs). We believe PCAOB developments can be informative to the ASB, in particular when the PCAOB has already obtained feedback on a topic through public consultation, including the benefits and practical challenges of moving forward in a particular direction. Before making changes to existing AU-C sections to converge with new or revised ISAs, the ASB should ensure it has considered the basis for decisions the Board made in developing existing ASB standards (e.g., when valid differences between the AU-Cs and the ISAs or PCAOB standards already exist), the comparable PCAOB standard, and the potential implications given the US regulatory and legal environment. Taking a holistic view and considering the efforts of other standard setters in a timely manner will make the ASB’s standard setting process more effective and efficient.</p> <p>We believe such an approach will be critical in the near term – as both the IAASB and PCAOB will likely issue final standard addressing the auditing of accounting estimates this year. The ASB has been monitoring the IAASB’s standard setting on the topic,</p> | Noted |

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| | | | but equal attention should be given to the PCAOB’s standard when it is finalized. If the ASB does not consider the PCAOB’s changes, it may mean that the ASB would need to amend its standards a second time once the PCAOB’s standard is issued. | |
| | | | Issue 1—Significant Unusual Transactions: Please provide your views on the use of the phrase “significant unusual transactions” instead of the phrase “significant transactions that are outside the normal course of business or that otherwise appear to be unusual” consistently throughout GAAS. | |
| 12. | TN | Issue 1 | Because the term <i>significant unusual transactions</i> is proposed to be defined, we prefer to use the term throughout the AU-C, rather than using its description. However, the definition does not appear to contemplate that transactions could be both significant <i>and</i> unusual. We believe using the term would provide more consistency throughout GAAS. | Definition is “significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature”; that is, significant transactions that are unusual. No change. |
| 13. | WSA | Issue 1 | Because the proposal defines the new term using current standards, we would not view this as a change to GAAS. However, we would suggest that a superior definition would converge with the definition of “Unusual Nature” from the FASB master glossary. That is, “The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.” | No change, because the purpose of the amendment is to converge with PCAOB, and this is the definition used by PCAOB. |
| 14. | ALGA | Issue 1 | We believe that the phrase “significant unusual transactions” is the preferred choice over “significant transactions that are outside the normal course of business or that otherwise appear to be unusual.” The use of the phrase “significant unusual transactions” is more direct and impactful to the reader, while the length of the second phrase might cause the reader to lose focus. However, the term “unusual” can be interpreted in various ways, depending on the user’s perspective, whereas the phrase “...outside the normal course of business...” gives a clear picture of what is considered unusual in this context. Therefore, if the phrase “significant unusual transactions” is used it would be helpful to point users to SAS No. 122, AU-C Section 240, Paragraph .11, which will have a definition of “significant unusual transactions.” Overall, we agree that using consistent terminology throughout GAAS is a worthwhile effort to develop consistency and understanding throughout the audit profession. | Footnoting not viable, and this term will become as familiar as all other terms with time. |

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| 15. | PwC | Issue 1 | We support using the phrase “significant unusual transactions” in the ASB’s standards to align with the PCAOB’s standards. We do not expect the clarification within the ASB’s standards to result in a change in practice. If the ASB decides to consistently use the phrase “significant unusual transactions,” it should ensure the change is made across its literature. For example, we believe changes to paragraph A91 of AU-C section 940, <i>An Audit of Internal Control over Financial Reporting That Is Integrated With an Audit of Financial Statements</i> , would be necessary, as the guidance refers to “controls over significant transactions outside the entity’s normal course of business.” Changes may also be necessary to the various Accounting and Audit Guides and other interpretive publications. | Proposed change to AU-C 940. Conforming changes to AAG and other interpretive publications done thru AICPA process. |
| 16. | TIC | Issue 1 | TIC believes that the use of the term “significant unusual transactions” is a more clear and concise phrase as compared to the current terminology and is preferable to the alternative proposed phrase “significant transactions that are outside the normal course of business or that otherwise appear to be unusual.” | Noted |
| 17. | CB | Issue 1 | We support the definition “significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature”. This definition allows the auditor to apply a similar mindset when auditing public or private entities based on the consistent definition. We believe using this definition which is consistent with AS 2401: Consideration of Fraud in a Financial Statement Audit paragraph .66 is desirable and allows us and all firms to be efficient and concise in trainings as it relates to “significant unusual transaction”. This definition also allows for auditors to use their best judgement in application with the addition of the specific phrasing due to their timing, size or nature | Noted |
| 18. | NASBA | Issue 1 | We agree that the use of consistent terminology between GAAS and PCAOB standards contributes to the enhancement of audit quality. NASBA, therefore, supports the use of the phrase “significant unusual transactions”. | Noted |
| 19. | FL | Issue 1 | We agree with the proposed revision to the phrase “significant transactions outside the normal course of business or that otherwise appear to be unusual.” We believe that use of the new phrase “significant unusual transactions”, provided the inclusion of a definition of the term, will enhance audit quality through consistency between both GAAS and PCAOB standards. | Noted |
| 20. | MI | Issue 1 | We have no objections to the proposed definition of the term “significant unusual transactions” as we consider it beneficial to use the term consistent with PCAOB standards. | Noted |
| 21. | BDO | Issue 1 | In particular, we support the ASB’s proposal to define the term <i>significant unusual transactions</i> in the standards and to use it consistently throughout GAAS. We believe the proposed amendments will be particularly beneficial in providing a consistent definition of significant unusual transactions and therefore a consistent response to risk arising from such transactions for engagement personnel who audit both publicly and privately held entities. As described above, we agree the phrase ‘significant unusual transactions,’ as defined in the proposal to be significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due their timing, size, or nature, will allow for a consistent definition and consistent understanding of the concept for engagement | Noted |

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| | | | personnel who audit both public and privately held entities. We further believe the use of the phrase, 'significant unusual transactions,' in the various sections of the auditing standards will also provide further clarity. | |
| 22. | GT | Issue 1 | We agree with the Board's position that audit quality could be enhanced if the use of the term "significant unusual transactions" is consistent in both U.S. GAAS and PCAOB standards. Further, we support the Board's proposed approach to defining this term in AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i> , and then using it consistently throughout all AU-C sections. | Noted |
| 23. | NC | Issue 1 | We feel it is acceptable to use the phrase "significant unusual transactions". When we think of significant, we naturally think of materiality or a large transaction class. When we think of unusual, we naturally think outside the normal course of business. We believe that the change in terminology simplifies the text without changing its meaning. | Noted |
| 24. | CA | Issue 1 | We support the definitional change to provide for consistent guidance for <i>significant unusual transactions</i> as used and applied throughout GAAS. | Noted |
| 25. | Anders | Issue 1 | We agree with the Board in this case that a consistent phrase between GAAS and PCAOB standards may enhance audit quality. | Noted |
| 26. | BT | Issue 1 | We agree that the consistent use of the term "significant unusual transaction" will enhance audit quality and with the proposed definition of significant unusual transaction, although, we recommend that ", for example," be inserted between "otherwise appear to be unusual" and "due to their timing, size or nature" to make it clear that transactions can appear to be unusual for reasons other than their timing, size or nature. | Noted |
| 27. | EY | Issue 1 | Overall, we support the ASB's proposal to consistently use the term "significant unusual transactions" and define it as "significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature." We believe that consistently using the term that appears in the PCAOB standards and aligning the definition with the PCAOB definition would (1) minimize unnecessary differences between the standards, (2) enhance the understandability of the SAS and (3) improve audit quality. We therefore agree that the ASB should consistently use the term significant unusual transactions in the conforming amendments listed in the proposal. However, we believe the ASB should also use the term in the paragraphs we list below that we identified in a review of the AICPA standards. In most instances, we recommend replacing the words we present in boldface type with the term significant unusual transactions. [paragraphs shown separately.] | Noted |
| 28. | NSAA | Issue 1 | We agree with using the phrase "significant unusual transactions" consistently throughout GAAS. We appreciate the inclusion of the definition for "significant unusual transactions" that encompasses "their timing, size, or nature." | Noted |
| 29. | DT | Issue 1 | D&T believes that aligning and using the same phrase, <i>significant unusual transaction(s)</i> , in both GAAS and the auditing standards of the PCAOB is appropriate and will alleviate confusion among auditors, particularly when engagements are performed in | Noted |

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| | | | accordance with both sets of standards, and also when developing and implementing the respective audit methodologies of the firms. Similarly, we also concur with the use of <i>business purpose</i> throughout GAAS, instead of the extant phrase <i>business rationale</i> . | |
| 30. | LL | Issue 1 | Issue 1. The phrase “significant unusual transactions” is adequately descriptive and more manageable than “significant transactions that are outside the normal course of business or that otherwise appear unusual”. | Noted |
| 31. | KPMG | Issue 1 | We support the Board’s decision related to the use of the phrase <i>significant unusual transactions</i> consistently throughout US GAAS. | Noted |
| 32. | EY | Definitions | Lastly, to make sure that stakeholders understand and apply the term <i>significant unusual transactions</i> consistently, we recommend that the term be defined or referenced in the definition section of every auditing standard affected by conforming amendments. We also recommend that the AICPA reconsider how defined terms are identified in its standards. For example, we recommend that all defined terms be clearly flagged using boldface type or italics. We believe that clearly identifying defined terms throughout the standards will improve the understandability of the standards and reduce the risk that the terms might be misapplied. | Defined terms are too widely used throughout GAAS for bolding or italicizing to be practicable. |
| | | | Issue 2—Proposed Amendment to AU-C Section 240 paragraph 32: <i>Please provide your views on whether requiring these procedures, in particular the procedure of “evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any,” is appropriate for audits of financial statements of nonissuers or whether these procedures would be better placed as application material.</i> | |
| 33. | KPMG | Issue 2 | We agree with the proposed amendments to AU-C section 240 for an auditor to evaluate the risk of material misstatement due to fraud related to significant unusual transactions, including all of the proposed procedures being required. Related to procedure 3, we agree that evaluating the financial capability of the party to fulfill its part of the transaction is an important aspect of understanding the reasons for the transactions and indicators of fraud. To further illustrate the intent of the procedure, we recommend that the Board consider providing examples of information that might be relevant to the auditor’s evaluation of the other party’s financial capability in paragraph A54. For the Board’s consideration, we have included example wording in Appendix A. | Noted |
| 34. | LL | Issue 2 | Issue 2. I recommend that the procedure proposed as AU-C 240.32c.iii to “evaluate the financial capability of the other parties . . .” be included as application material. There may be other procedures the auditor may perform instead, or, the auditor may conclude that the significant unusual transaction is an indication of fraudulent financial reporting without such an evaluation. To then require that evaluation as a presumptively mandatory requirement seems unnecessary. Additionally, the statement “the financial capability of the other parties with respect to significant uncollected balances . . .” is a bit unclear. By “other parties”, does the ASB mean “external or related parties to the significant unusual transaction”? Some precise wording would be helpful here. For example, “evaluate the financial capability of the external or related parties to the significant unusual transaction with respect to significant uncollected balances . . .” | Other parties are the parties involved in the transactions other than the entity, whether external or related. |

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| 35. | DT | Issue 2 | <p>D&T believes that the proposed procedures in paragraph 32c of AU-C 240 will enhance audit quality by driving consistency in the application of the audit effort around fraud considerations related to significant unusual transactions.</p> <p>In assessing amendments to PCAOB AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i> (included as conforming amendments in Appendices 2 and 3 of PCAOB Release No. 2014-002, Auditing Standards 18 — <i>Related Parties</i>), D&T notes that paragraph 66Ad of AS 2401 was omitted when compiling the amendments to the proposed SAS. D&T recommends that paragraph 66Ad of AS 2401 be included as one of the procedures to paragraph 32c of AU-C 240 as it will require the auditor to consider if there are any additional procedures to be performed beyond the matters already addressed in paragraph 32c i-iv of AU-C 240. The suggested edits to paragraph 32c of AU-C 240 (assuming the amendments in the proposed SAS are accepted as final) are as follows:</p> <p>32c. Evaluate, given the auditor’s understanding of the entity The procedures should include the following:</p> <ul style="list-style-type: none"> i. Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the transaction ii. Determining whether the transaction has been authorized and approved in accordance with the entity’s established policies and procedures iii. Evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any iv. Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements <p>v. Performing other procedures as necessary depending on the identified and assessed risks of material misstatement</p> | <p>See Agenda Item 5, discussion of Issue 2.</p> <p>Requirement to perform procedures as necessary depending on the identified and assessed risk of material misstatement is required in AU-C section 330.06.</p> |
| 36. | EY | Issue 2 | <p>We support the ASB’s proposed amendment to AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, to require auditors to, among other things, evaluate whether the business purpose (or lack thereof) of a significant unusual transaction suggests that an entity may have entered into the transaction to engage in fraudulent financial reporting or to conceal the misappropriation of assets. Considering the risks related to significant unusual transactions, we believe the proposed procedures are appropriate and should be aligned with the PCAOB requirements.</p> | <p>See Agenda Item 5, discussion of Issue 2.</p> |
| 37. | PwC | Issue 2 240,32(c)(i, ii, iv) | <ul style="list-style-type: none"> • The nature, timing and extent of the auditor’s procedures to respond to the risk of management override of controls will depend upon the types of risks identified and will also be impacted by the auditor’s consideration and testing of the operating effectiveness of controls intended to address such risks. | <ul style="list-style-type: none"> • See Agenda Item 5, discussion of Issue 2. |

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| | | | <p>We note that the proposed changes to the requirement in paragraph 32 of AU-C section 240 are taken from paragraph 12 of AS 2410. The PCAOB’s requirement applies to “each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk,” rather than to the risk of management override of controls. We believe the incremental requirements would be better placed in AU-C section 550, with additional clarification that they relate only to each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk.</p> <ul style="list-style-type: none"> We do not object to the proposed changes articulated in paragraphs 32 (c)(i), (c)(ii), and (c)(iv) of AU-C section 240 in relation to significant unusual transactions required to be disclosed in the financial statements or determined to be a significant risk. We believe such procedures may already be being performed by auditors today, but suggest implementation guidance be added to describe the implications for the audit when the company does not have established policies and procedures over the authorization and approval of transactions. | <ul style="list-style-type: none"> Reference to “established policies and procedures” removed. |
| 38. | PwC | Issue 2 240,32(c)(iii) | <p>We do not support the additional requirement in paragraph AU-C 240.32(c)(iii) to evaluate the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees and other obligations, if any. We believe the intent of the proposed change is already encompassed within existing standards (e.g., as part of auditing accounts receivable an auditor would assess uncollected balances, and as part of auditing a loan an auditor would assess the company’s loan commitments). In other cases, evaluating the financial capability of the other parties may not be necessary or practicable in all cases. If the ASB decides to retain this concept, we recommend this be included as application material rather than a requirement to illustrate additional procedures that could be relevant depending on the nature of the significant unusual transaction. If retained, we believe this would cause significant incremental work to address matters such as supply arrangements, which may not necessarily relate to financial statement risks.</p> | <p>See Agenda Item 5, discussion of Issue 2.</p> |
| 39. | Anders | Issue 2 | <p>We believe these procedures would be better placed as application material. As currently drafted in the proposal, the specific procedure of “evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any” is ambiguous and lacks clear scope.</p> | <p>See Agenda Item 5, discussion of Issue 2.</p> |
| 40. | CA | Issue 2: a, b, d | <p>We agree with these specified procedures.</p> | <p>See Agenda Item 5, discussion of Issue 2.</p> |

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| 41. | CA | Issue 2 | <p>We believe these proposed specified procedures can be very problematic. The ability to understand the financial capability of a counterparty could require the auditor to extend audit procedures to the counterparty (which may be a very distant related party); an entity which the auditor may not have any or at least very limited access to their accounting records. This requirement may impose a significant performance burden. The auditing standards already contain guidance on determining sufficient, competent audit evidence to support assertions in a financial statement. The requirement to extend additional auditing procedures to entities that are not part of the audit will also lead to divergence in practice as to the extent one auditor may require audit of the financial capabilities of counterparties. We believe this requirement will have significant practical implementation problems.</p> <p>The Committee also discussed the problematic implementation issues when both the client and the counterparty are both the audit firm's clients. This dual client / auditor role raises some professional practice issues.</p> | See Agenda Item 5, discussion of Issue 2. |
| 42. | NC | Issue 2 | <p>Overall, we believe these proposed changes are already covered by GAAS. To the extent that more explicit explanations and examples are provided, we believe they would be more appropriately provided in the form of application materials. Generally, we feel that including specific audit procedures in the Auditing Standards should be avoided to the greatest extent possible.</p> <p>In particular, proposed item three above may be difficult to implement as many nonissuers do not have readily available audited information. Even for those nonissuer entities that do have audited financial statements, obtaining a copy may not be possible. We are concerned that the requirement to “evaluate the financial capability of the other party” may expose the auditor to additional risk as it may be interpreted by users of the financial statements that the auditor has vouched for the financial capability of the other party to fulfill its commitments. For example, how would an entity’s auditor be able to adequately evaluate the ability of all the businesses in a supply chain to fulfill their contractual delivery obligations in accordance with the contracted time frames so that the audited entity is not materially negatively impacted?</p> | See Agenda Item 5, discussion of Issue 2. |
| 43. | GT | Issue 2 | <p>We believe there could be considerable operational challenges as well as unintended consequences with the proposed amendment, particularly with proposed paragraph 32c(iii). It is difficult to foresee circumstances where an auditor could have access to the information necessary to complete an evaluation of another party’s financial capability, especially if that party has no relation to the entity being audited. We are also concerned by the overall prescription of the proposed amendment. While we understand there may be circumstances where the auditor may determine that such an audit response is necessary, in the spirit of remaining principles-based, we recommend that the Board move the four procedures in the proposed amendment to application guidance.</p> | See Agenda Item 5, discussion of Issue 2. |
| 44. | ALGA | Issue 2 | <p>To help provide assurance that fraudulent financial reporting or the concealment of misappropriated assets did not occur, we concur that these procedures are placed appropriately as requirements and would not be better placed as application material.</p> | See Agenda Item 5, discussion of Issue 2. |
| 45. | IL | Issue 2 | <p>The Committee established our opinion that the procedures, in particular the procedure of “evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any,” will be best placed as application material. The procedures are within the fraud standard, which</p> | See Agenda Item 5, discussion of Issue 2. |

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| | | | requires auditor judgment to determine the appropriate audit response instead of prescriptive procedures. These procedures also are best placed in the application materials because it does not require an auditor to perform unnecessary procedures or those not responsive to the entity under audit. Entities subject to AICPA auditing standards vary substantially between one another and greater flexibility allows for a more responsive audit. | |
| 46. | BDO | Issue 2 | <p>Furthermore, we agree the amendments to AU-C section 240, <i>Consideration of Fraud in a Financial Statement</i> (AU-C section 240), to align with PCAOB AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i> (AS 2401), are appropriate; however, we believe additional application guidance should be considered.</p> <p>Generally, we agree the additional procedures described in the proposed amendments to AUC section 240 are appropriate for non-issuers and will provide further guidance to the auditor in evaluating fraud risk and provide consistency in procedures for engagement personnel who audit both public and privately held entities.</p> <p>Specific to the question of “evaluating the financial capability of the other parties” in item 3 above, we agree this is a valid consideration in assessing fraud risks arising from significant unusual transactions. However, as these procedures are often addressed in other areas of the audit, such as confirmation procedures, auditing management’s estimates and judgments, retrospective review, etc., we believe this procedure would be better served as application guidance, as part of paragraph A54.</p> | See Agenda Item 5, discussion of Issue 2. |
| 47. | FL | Issue 2 | <p>The Committee agrees with the proposed amendments to require further procedures over the evaluation of the financial capability of the other parties with respect to <i>significant uncollected balances, loan commitments, supply arrangement, guarantees, and other obligations, if any</i>. The committee agrees with this amendment based on our collective experience regarding balances of this nature and the potential for fraudulent financial reporting. Furthermore, we believe these procedures would not be better placed as application material.</p> | See Agenda Item 5, discussion of Issue 2. |
| 48. | MI | Issue 2 | <p>We do not consider evaluating the “financial capability” of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any, is appropriate for audits of nonissuers. As stated, it is not clear to us what is meant by “financial capability” and how such an evaluation would indicate fraudulent activity.</p> | See Agenda Item 5, discussion of Issue 2. |
| 49. | WSA | Issue 2 | <p>In general, we prefer that the nature, timing and extent of testing be a matter of auditor judgment based on risk. This allows auditors to design the audit to match the circumstances while still meeting the objectives of the standard. We have no concerns with this requirement with respect to “significant uncollected balances,” although we would prefer it be in the application material. However, we are less comfortable with this requirement with respect to “loan commitments, supply arrangements, guarantees, and other obligations” since it would be harder to determine “significance” of contingencies such as this and might pertain more to operational matters than financial reporting. As such, the application of this requirement might be unclear or subject to misunderstanding.</p> <p>We suggest either: eliminating this requirement; moving it to application guidance for proposed c.iv (if the Board intends to communicate that evaluating proper accounting and disclosure may entail evaluating financial capability of other parties); using the term “obtaining information” rather than “evaluate” consistent with proposed AU-C section 550.A36; or providing application material on the applicability, nature and extent of expected procedures consistent with proposed AU-C section 550.A36.</p> | See Agenda Item 5, discussion of Issue 2. |

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| 50. | NASBA | Issue 2 | <p>Traditionally, unusual transactions have created challenges in execution of many audits. Therefore, NASBA supports the addition of all of the above-mentioned procedures to evaluate significant unusual transactions and believes that these procedures could further enhance audit quality. The nature of and the extent of such procedures, however, should be a matter of an auditor’s professional judgment. NASBA, therefore, proposes to add a statement that the list of procedures outlined in the Statement is not all-inclusive and should not be viewed as a substitute for auditor’s judgment.</p> <p>Additionally, in response to procedure #3 above, it should be noted that the ability to evaluate the financial capability of the other parties may be problematic in audits of issuers as well as non-issuers. NASBA, therefore proposes modifying the proposed wording of the suggested procedures to require the auditor “to assess management’s procedures and processes for evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees and other obligations, if any.”</p> | See Agenda Item 5, discussion of Issue 2. |
| 51. | CB | Issue 2 | <p>We support the proposed requirement for the auditor to perform the procedures outlined in items 1, 2, and 4 to AU-C section 240 and currently believe we have incorporated these procedures in our current audit methodology. We do not support the requirements outlined in item 3, specifically evaluating the financial capability of other parties. This requirement may substantially increase costs, efficiency of, and timely completion of audits, while subsequently increasing fees for audit clients. Training our auditors on applying these additional procedures would require firm-wide in-person training and changes to our industry specific trainings at a substantial cost. Based on the reasoning above we believe the “evaluating the financial capability of other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any” would be better placed as application material. However if the decision is made by the ASB to require the procedures outlined in item 3, we would encourage the ASB to consider additional guidance and clarifying language as it relates to materiality levels applied to possible uncollected balances, loan commitments, etc. and what is acceptable audit evidence related to financial capability. Additional guidance and clarifying language would assist the auditor in applying these additional procedures, training our auditors and enhancing conversations with our audit clients.</p> | See Agenda Item 5, discussion of Issue 2. |
| 52. | NSAA | Issue 2 | <p>The procedures described in proposed AU-C 240.32(c)(i), (ii), and (iv) appear reasonable to perform based on the auditor’s understanding of the entity and its environment and other information obtained during the audit. However, the procedure in item (iii) to evaluate the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations does not seem reasonable.</p> <p>This procedure would involve the application of audit procedures to parties outside of the audit engagement and could prove difficult to perform if they were not willing participants. If the information cannot be obtained, we are concerned that the auditor may have some scope limitations for lack of obtaining this single bit of information. In addition, if the information is obtained, the auditors may not have the necessary knowledge and skills to perform such a subjective evaluation of the third party’s financial capabilities.</p> | See Agenda Item 5, discussion of Issue 2. |

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| | | | Due to the difficulties in applying this requirement, we believe the Board should remove item iii. However, if this is not an option, we believe it should be moved to an application guidance paragraph and modified to evaluate management’s assessment of the financial capability of the other party, rather than having the auditor perform the evaluation. | |
| 53. | TIC | Issue 2 | TIC believes that requiring these procedures is appropriate for audits of financial statements of nonissuers and, therefore, should be in the text of the requirements rather than application material. | See Agenda Item 5, discussion of Issue 2. |
| 54. | TN | Issue 2 | For this particular procedure, we disagree with the focus of the procedure. We believe the proper focus should be on management’s internal controls over their own evaluation of the financial capability of the other parties. Then, the auditor could evaluate management’s methodologies and significant assumptions being used for the evaluation. | No change; small entities may not have established methodologies. |
| 55. | Crowe | Issue 2 | <p><i>Consideration of Fraud</i></p> <p>Given that a significant focus of this Proposed Standard is to define “significant unusual transactions” and provide guidance to the auditor on identifying such transactions, it is appropriate to also provide requirements and guidance on auditing such transactions, specifically from the perspective of understanding the business purpose and addressing the related fraud risks. We agree with most of the proposed amendments to AU-C 240 that require the auditor to evaluate if the underlying documentation about the significant unusual transaction is consistent with explanations from management and other audit evidence and if such transactions have been appropriately authorized and approved. These procedures will help the auditor to conclude if the transactions themselves are appropriate as well as to determine if management has properly reported and disclosed the transaction in the financial statements.</p> <p>However, we have some concerns related to the proposed requirement in AU-C section 240, paragraph 32c, which mandates specific audit procedures for significant unusual transactions. We believe that these requirements are overly prescriptive, and that the auditor should determine the nature and extent of planned audit procedures based on materiality and the auditor’s risk assessment process. Thus, we recommend that the ASB denotes the content in 32c i.-iv. as procedures the auditor “may” perform based on the risk assessment process. These steps could either remain in paragraph 32 or be moved to application material.</p> | See Agenda Item 5, discussion of Issue 2. |
| 56. | BDO | 240.32c(ii) | In addition, we suggest further consideration be given to the proposed language included in AU-C section 240, paragraph .32, which requires the evaluation of significant unusual transactions with regard to “determining whether the transaction has been authorized and approved in accordance with the entities established policies and procedures.” Often with closely held businesses, there may be a larger number of related parties and/or significant involvement with management where there may not be written “established policies and procedures.” Rather, such policies and procedures are less formal, but nevertheless understood given the size and/or informal reporting structures. We believe additional application guidance should be considered for audits of these types of entities, focusing auditor attention on related party transactions that would make a difference in decision making of users of the financial statements. | Au-C 550.A43-.A44 addresses this in the context of related party transactions. See Agenda Item 5, discussion of Issue 2 . |
| 57. | BT | 240.32 | We recommend that “accomplish the following” be removed from paragraph 32 of AU-C section 240 as we do not believe that the additional wording adds any value to the requirement. | AICPA Editorial style; no change |

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| 58. | ALGA | 240.32.c.ii. | If the entity’s established policies and procedures allows for management override in certain circumstances, the allowable reasons for management override should be listed in the policies and procedures to document approved exceptions. Consider adding language to the application material/other guidance section to address management override of controls. | See Agenda Item 5, discussion of Issue 2. |
| 59. | ALGA | 240.32.a.iii and .A49 sixth bullet | For consistency purposes, consider changing the phrase “outside the normal course of business” to “significant unusual transactions.” This change was not reflected in the exposure draft. | The cited paragraphs address “entries outside the normal course of business”. These entries are unusual but not necessarily significant. |
| | | | Other Comments | |
| 60. | BDO | 210.A33 | The last proposed bullet point of AU-C section 210, <i>Terms of Engagement</i> , paragraph A33 is unclear as to the scope of related party inquiries, and whether the application guidance applies to all transactions or just significant unusual transactions. We suggest considering rewording the point to focus on significant unusual related party transactions. One such way this could be accomplished is to revise paragraph A33 as follows: The predecessor auditor’s understanding of the nature of the entity’s and relationships and transactions surrounding significant unusual transactions with related parties and significant unusual transactions. | Consistent with PCAOB wording. See XC row 24. |
| 61. | NC | 210.A33 | <ul style="list-style-type: none"> The predecessor auditor’s understanding of the nature of the entity’s relationships and transactions with related parties and significant unusual transactions We believe this addition is, in effect, asking the predecessor auditor to do the successor auditor’s work. It is up to each auditor to obtain the audit evidence that the auditor believes is adequate to support the audit opinion. Also, it is likely the response from the predecessor auditor will be “read the prior audited financial statements.” It does not appear that this proposed change will add any additional audit evidence that the successor auditor doesn’t already have at his/her disposal. | Keep , consistent with PCAOB. See CC row 25 |
| 62. | DT | 240.19 | D&T notes that the amendment to paragraph 19 of AU-C 240 is included in the middle of a list of inquiries that the auditor should make of the appropriate internal audit personnel related to fraud. It is our belief that the amendment should be added to the end of the paragraph consistent with the layout in paragraph 56c of PCAOB AS 2110, <i>Identifying and Assessing Risks of Material Misstatement</i> (AS 2110). See the following edits to paragraph 19 of AU-C 240 in order to more closely align with PCAOB AS 2110. 19. For those entities that have an internal audit function, the auditor should make inquiries of appropriate individuals within the internal audit function to obtain their views about the risks of fraud; determine whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity; whether the entity has entered into any significant unusual transactions; whether they have performed any procedures to identify or detect fraud during the year;, and whether management has satisfactorily responded to any findings resulting from these those procedures; and whether the entity has entered into any significant unusual transactions. | Change to be less prescriptive, see below |

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| 63. | BDO | 240.19 | AU-C section 240, paragraph 19 discusses inquiries with the internal auditor as part of the risk assessment procedures. As internal audit may not be aware of all significant unusual transactions, we suggest the required inquiry focus on internal audit's awareness or knowledge of any such significant unusual transactions. This could be accomplished by rephrasing the proposed addition to the paragraph as follows: ..whether the entity has entered into any they are aware of any significant unusual transactions or related party transactions that are also significant unusual transactions that the entity has entered into | Change to be less prescriptive for audits of non-issuers |
| 64. | LL | 240.A19 | 240.A19 includes additional language of an example as part of the third bullet point. I think the example limits the potential complex or unusual transactions that could be considered and should not be included. | Examples are not intended to be comprehensive. No change proposed. |
| 65. | ALGA | 240.A19 | Consider adding the chairperson of the audit committee and the internal audit function to the list of examples of others within the entity to whom the auditor may direct inquiries about the existence or suspicion of fraud. | Not a change to converge with PCAOB standard; outside scope of project. |
| 66. | NASBA | 240.A19 | In paragraph A19 on page 28 of the Statement, the ASB provides examples of others within the entity to whom the auditor may direct inquiries about the existence or suspicion of fraud, and uses the term "a sale transaction with multiple elements..." NASBA recommends adding "as defined in the applicable financial reporting framework" after "multiple elements" to clarify the intent of the example. | Added to clarify. |
| 67. | DT | 240.A54 550.A43 | Economic Substance versus Economics or Economic Reality D&T notes the amendments to paragraph A54 of AU-C 240 (seventh bullet) included a reference to the <i>economic substance</i> of a transaction (or lack thereof). We note what also appears to be an inconsistent use of the term throughout the proposed SAS, for example; there was a reference to underlying economics (paragraph A54 of AU-C 240 (third bullet)), and economic reality (paragraph A43 of AU-C 550). We recommend that the ASB use phrases consistently throughout each individual AU-C section and between sections. | Reviewed and revised all instances. |
| 68. | LL | 240.A54 | 240.A54 sixth bullet point discusses "Transactions involve other parties . . ."; parties other than who? Don't all transactions involve parties other than the entity under audit? I recommend the ASB clarify this language. | Add "or any related party of the entity" to clarify that the other party is not a related party. |
| 69. | KPMG | 240.A54 | <i>Additional language to assist auditors apply the requirements of the proposed amendment to AU-C 240.32c.</i> Examples of information that might be relevant to the auditor's evaluation of a related party's financial capability include, among other things, the audited financial statements of the related party, reports issued by regulatory agencies, financial publications, and income tax returns of the related party, to the extent available. | See new paragraph A54A |

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| 70. | NSAA | 240.A54 | We suggest that the heading above paragraph A54 (page 28) be updated to include the word “unusual.” | Revised |
| 71. | GT | 240.A54 | <ul style="list-style-type: none"> There appears to be some general overlap with the requirements related to significant unusual transactions and those specific to related parties. We believe it would be helpful if this paragraph contains a reference to the related party requirements to help differentiate the two. In the fourth bullet in this paragraph, there is a reference to “special purpose entities.” We believe this term is no longer defined in GAAP and therefore recommend updating the reference to a term that is more current. <p>In the second-to-last bullet in this paragraph, we recommend revising the reference to “accounting principles applicable to that entity” to the “applicable financial reporting framework” in order to be consistent with the vernacular used throughout the AU-C sections.</p> | <ul style="list-style-type: none"> Revised Revising this term is out of scope Revised |
| 72. | ALGA | 240.A71 | In the extant SAS No. 122, AU-C Section 240 paragraph .A71, the last bullet point reads “the absence of programs or controls to address risks of material misstatement due to fraud that are significant deficiencies or material weaknesses.” This bullet point is not in the exposure draft and there is no indication in the exposure draft that it is being removed. | Last bullet will be added for final standard |
| 73. | LL | 240.A75 | 240.A75 If the fifth bullet point identifies significant unusual transactions, isn’t it redundant to then include the first bullet point of related party transactions that are also significant unusual transactions? I don’t think the first bullet point is necessary as it is incorporated in the fifth bullet point. By segregating related party transactions that are also significant unusual transactions, the question is raised for all other places that audit standards discuss significant unusual transactions, does it incorporate related party transactions that are also significant unusual transactions when they are not specifically discussed? | First bullet was in extant, only change is from “outside the normal course of business” to “significant unusual transactions” |
| 74. | WSA | 260.12a | Also, we would prefer the proposed new requirement include significant unusual transactions as part of the existing requirement to discuss the auditor’s views about significant accounting practices (along with accounting estimates in current AU-C 260.12a(ii)), rather than as a separate item. | Wording in proposed amendment is consistent with PCAOB amendment (see AS16 matrix) |
| 75. | KPMG | 260.12b and 260.A30 | <p><i>Move the application material to the requirement to establish a minimum for what is to be communicated, if applicable.</i></p> <p>b. Significant unusual transactions, if any. <u>When applicable, the auditor should include the following in their communication of significant unusual transactions:</u></p> <p><u>i. the auditor’s views on the policies and practices management used to account for significant unusual transactions; and</u></p> <p><u>ii. the auditor’s understanding of the business purpose (or lack thereof) for significant unusual transactions.</u></p> | Too prescriptive for audits of nonissuers; no change |
| 76. | MI | 260.13a | We request the Board insert the word “material” in the last sentence so it reads “The auditor should request that uncorrected <u>material</u> misstatements be corrected.” This seems to be the Board’s intent based on the standard’s preceding sentence but we would request this “should” requirement be very specific to identify uncorrected material misstatements. | No change to extant. |

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| 77. | FL | 260.13(b) | While this paragraph was not included as part of the proposed request for response, the Committee believes the additional communication would provide greater transparency with a reduction in risk exposure from the effects of prior uncommunicated misstatements on future audit periods. | Noted |
| 78. | GT | 260.13b | We believe the amendment to .13b, as currently proposed, could be misleading since an auditor could infer that the communication regarding misstatements being material in future periods applies only to misstatements related to prior periods, which we do not believe is the original intent of the corresponding PCAOB requirement. Therefore, we recommend either incorporating the proposed text into .13a or including it as a separate bullet within paragraph .13. | Changed to clarify applies to both a and b |
| 79. | BT | 260.12f | It appears that paragraph 12f of AU-C section 260 should be referenced to the application guidance in paragraph A36. | 12f is referenced to .A35-.A38 |
| 80. | NC | 260.A36 (new) | We believe that this paragraph is unnecessary as it doesn't change the fact that contents of the communication to those charged with governance is primarily a matter of the auditor's professional judgment. | Deleted; guidance is raising more questions than it answers. |
| 81. | BT | 260.A36 | In addition, we believe that further application guidance regarding the types of complaints or concerns to which this paragraph refers should be added. | Deleted; guidance is raising more questions than it answers. |
| 82. | PwC | 260.A36 | Paragraph A36 - Paragraph 12a of AU-C section 260 requires the auditor to communicate views about qualitative aspects of the entity's significant accounting practices, paragraph 12d of AU-C section 260 requires the auditor to communicate disagreements with management and other AU-Cs require the auditor to communicate with those charged with governance about fraud or noncompliance with laws and regulations. The ASB is proposing to add additional guidance that the auditor may communicate complaints or concerns regarding accounting matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters. We believe additional context is needed as to what these matters may be and how those matters would come to the auditor's attention. | Deleted; guidance is raising more questions than it answers. |
| 83. | LL | 260.A38 | 260.A38 adds "for which the auditor consulted outside the engagement team . . .". Although this is not a presumptively mandatory requirement, I do not believe the addition of this language is helpful in the auditor's application of the requirement. There are many instances for which an auditor may consult outside the engagement team that are not necessary to communicate to governance, and in some cases could be detrimental. Such as: consulting regarding an accounting and/or reporting requirement; consulting regarding a nuance about an industry; or consulting with an IT specialist regarding the effect of information technology on internal controls. To communicate such information may negatively affect the regard those charged with governance have for the auditor's capabilities; when actually those consultations may enhance the quality of the audit. | See below. |

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| 84. | NC | 260.A38 | <p>A38 To the extent not already addressed by the requirements in paragraph .12a–f and related application material, the auditor may consider communicating about other matters for which the auditor consulted outside the engagement team or that were discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with AU-C section 220, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AICPA, Professional Standards).</p> <p>Several members of the joint task force believe that this change is unnecessary as it doesn't change that contents of the communication to those charged with governance is primarily a matter of the auditor's professional judgment.</p> | See below |
| 85. | DT | 260.A38; 260.12 | <p>D&T believes that the guidance referring to the auditor consulting outside the engagement team should be separately included as a requirement in paragraph 12 of AU-C 260. It is our view that while paragraph 12f of AU-C 260 will likely encompass the relevant findings or issues relating to the financial reporting process of which those charged with governance should be aware, the requirement in paragraph 15 of PCAOB AS 1301 is more succinct and direct. It explicitly requires a specific action on the part of the auditor resulting from "difficult or contentious matters for which the auditor consulted outside the engagement team." D&T does not believe that a difference should exist between GAAS and the auditing standards of the PCAOB as it relates to this performance requirement. We therefore recommend the following edits be made to paragraph 12 of AU-C 260 (and that consequently, no amendments would be made to paragraph A38 of AU-C 260, as it would revert to extant language):</p> <p>12. The auditor should communicate the following with those charged with governance:</p> <p>a. . . .</p> <p>e. Circumstances that affect the form and content of the auditor's report, if any; and</p> <p>f. Matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the oversight of the financial reporting process by those charged with governance; and</p> <p>gf. Other findings or issues, if any, arising during the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process.</p> | Revised as suggested |
| 86. | KPMG | 260.A57 And 260.12 | <p>The proposed addition to paragraph AU-C 260.A57 to provide application material related to how the auditor may evidence compliance with the communication requirements when management has communicated some or all the matters the auditor is required to communicate, is useful and closely aligns with the documentation requirement in PCAOB AS 1301.25. However, the Proposed Standard does not include the content of PCAOB AS 1301.12 related to the conditions that are to exist for that application material to be appropriate. For example, the Proposed Standard does not include the statement that the auditor need not repeat communications made by management if the auditor participated in the discussion and affirmatively confirms with those charged with governance that management's communication was adequate.</p> <p>Because we believe the requirements related to the auditor's participation at management's presentation are as important as the documentation requirements, and to avoid the auditor's inadvertent delegation of communications to management, we recommend the Board incorporate the requirements from AS 1301.12 as we illustrate in Appendix A.</p> | Par. A57 moved to requirement in par. 20; new requirement in par. 16A |

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| | | | <p><i>Create a requirement to establish a minimum as to what is to be performed and documented if management also communicates certain items to those charged with governance.</i></p> <p><u>As part of its communications to those charged with governance, management might communicate some or all of the matters in this paragraph. If, as part of its communication to those charged with governance, management communicates any of these matters, some or all of the matters the auditor does not need to communicate them at the same level of detail as management, as long as the auditor 1) participated in management’s discussion with those charged with governance, and 2) affirmatively confirmed to those charged with governance that management has adequately communicated these matters. The auditor should communicate any omitted or inadequately described matters to those charged with governance and should include a copy or summary of management’s communications provided to those charged with governance in the audit documentation.</u></p> | |
| 87. | Crowe | 260.A57 | <p>Related to the application guidance in proposed A57 of AU-C section 260, we are concerned that some auditors may over-apply this guidance and under-communicate to the audit committee as a result. While the proposed paragraph uses the wording “the auditor did not communicate these matters at the same level of detail as management, the auditor <u>may</u> include a copy...”, we believe there is a risk that the auditor may reduce its communications without fully understanding the scope and detail of the communications made by management. Without obtaining and documenting this understanding, the auditors may improperly conclude that their reduced communications sufficiently meet all the requirements. Therefore, we propose that the ASB change “may”, as underlined above, to “should”, to ensure documentation is obtained.</p> | See above |
| 88. | TIC | 260 | <p>TIC also had the opportunity to discuss this ED with the Board in our January 2018 meeting related to whether any of the potential communication requirements that will become part of this standard would give rise to KAMs. TIC would ask the Board to consider whether anything related to KAMs, such as scoping out of certain sensitive related party information in smaller entities, needs to be added to this standard based on how the final auditor reporting standard reads with respect to KAMs.</p> | To be considered after KAM discussion |
| 89. | EY | 315.A35 | <ul style="list-style-type: none"> ▶ An understanding of the entity’s selection and application of accounting policies may encompass such matters as ▶ the methods the entity uses to account for significant and unusual transactions. <p>EY comment: We recommend using the term significant unusual transactions because we believe the ASB’s intent is to refer to significant transactions that are also unusual. If the Board intended to refer to both (1) significant transactions and (2) unusual transactions, we believe the Board should use that language.</p> | Revised to delete “and” |
| 90. | EY | 315.A139 | <ul style="list-style-type: none"> ▶ Significant risks often relate to significant nonroutine transactions and matters that require significant judgment. <i>Nonroutine transactions are transactions that are unusual, either due to size or nature, and that, therefore, occur infrequently.</i> Matters | Revised |

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| | | | <p>that require significant judgment may include the development of accounting estimates for which a significant measurement uncertainty exists.</p> <p>EY comment: We recommend using the term significant unusual transactions and deleting the definition of nonroutine transactions to eliminate an unnecessary difference between the AICPA and PCAOB standards</p> | |
| 91. | EY | 315.A140 | <p>► Risks of material misstatement may be greater for significant nonroutine transactions arising from matters such as the following:</p> <p>EY comment: We recommend using the term significant unusual transactions to make the guidance consistent with the PCAOB standards. We note that the definition of significant unusual transactions explicitly mentions significant transactions that are outside the scope of an entity’s normal course of business, and we believe that the risks of material misstatement may be greater for these types of transactions.</p> | Revised |
| 92. | EY | 315.A144 | <p>► Although risks relating to significant nonroutine transactions or matters that require significant judgment are often less likely to be subject to routine controls, management may have other responses intended to deal with such risks.</p> <p>EY comment: We recommend using the term significant unusual transactions to make the guidance consistent with the PCAOB standards. We note that the definition of significant unusual transactions explicitly mentions significant transactions that are outside the scope of an entity’s normal course of business. We believe that risks relating to significant transactions that are outside the scope of the entity’s normal course of business are often less likely to be subject to routine controls, and management may have other responses intended to deal with such risks.</p> | Revised |
| 93. | GT | 330.A58 | <p>We do not believe the proposed amendment is clear within the context of the requirement paragraph to which this application guidance refers and the auditor’s risk assessment and response requirements. We ask the Board to reconsider the utility and placement of this proposed text. If the Board decides to retain the proposed addition, we ask that “substantive procedures” be used as opposed to “substantive audit procedures” in order to remain consistent with other uses of the term in AU-C section 330.</p> | Revised as shown |
| 94. | KPMG | 550.14 | <p><i>To consistently conform to PCAOB standards.</i></p> <p>The auditor should inquire of management and others within the entity regarding the following:</p> <ol style="list-style-type: none"> a. The identity of the entity’s related parties, including changes from the prior period (Ref: par. A9–.A15) b. The nature of the relationships (including ownership structure) between the entity and these related parties c. The business purpose of entering into a transaction with a related party versus an unrelated party | Revised |

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| | | | d. Whether the entity entered into, modified, or terminated any transactions with these related parties during the period and, if so, the type and business purpose <u>(or lack thereof)</u> of the transactions | |
| 95. | PwC | 550.15 | Paragraph 15 - We note the PCAOB's placement of this requirement as part of gaining an overall understanding about the nature of an entity's related party transactions. We believe the additional language added to paragraph 15 would be better placed as part of the requirement in paragraph 14 to gain an overall understanding rather than specific to the auditor's understanding of the controls management has established. | See summary of changes not made for ASB consideration. |
| 96. | PwC | 550.15 | Smaller entities with active management involvement in the financial reporting process may not have extensive descriptions of accounting procedures or written policies, for example in relation to the authorization and approval of transactions with related parties. Accordingly, it may be helpful to include additional application material to explain that a control deficiency may not exist in the absence of formal policies or procedures being in place (i.e., the nature of the company and its control environment may influence the significance of other controls or their absence). | Added reference to par. A43-.A44, which addresses this issue. |
| 97. | LL | 550.15c | 550.15c. as proposed says "authorize and approve significant unusual transactions and arrangements". Why is the "and arrangements" added? This seems inconsistent with language used elsewhere throughout the proposed SAS. | Extant language; no change |
| 98. | LL | 550.15 | 550.15 adds "Inquiries should include asking about any related party transactions that have not been authorized and approved . . .". The requirement is unclear: does the ASB mean "ask about related party transactions that the auditor is aware have not been authorized and approved . . ." or does the ASB mean "ask whether there are related party transactions that have not been authorized and approved . . .". I would recommend that the language be more precise such as "Inquiries should include asking about whether there are any related party transactions that have not been authorized and approved . . ." and ". . . whether there are any transactions for which exceptions to the entity's established policies . . .". | Wording is consistent with PCAOB standard; no change |
| 99. | GT | 550.15c | We recommend deleting "and arrangements" from this bullet in order to remain consistent with the newly defined term (as proposed). We are concerned that keeping this language could imply something different from, or incremental to, the defined term of "significant unusual transactions." | No change; "transactions and arrangements" used in several places in extant. |
| 100. | BT | 550.14-16 | We believe that adding application guidance regarding the timing of the performance of the procedures described in paragraphs 14, 15 and 16 of AU-C section 550 would be helpful. | No change; outside scope of project. |

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| 101. | TIC | 550.16 | <p>TIC noted a new requirement related to inquiries of those charged with governance in paragraph 16, which reads as follows: “The auditor should inquire of those charged with governance regarding: a. their understanding of the entity's relationships and transactions with related parties that are significant to the entity and b. whether any of those charged with governance have concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns”</p> <p>TIC was wondering whether the Board intended to have the auditor make these inquiries of everyone charged with governance, or just to the chair. For example, paragraph .21 of AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, indicates the following: “Unless all of those charged with governance are involved in managing the entity, the auditor should make inquiries of those charged with governance (or the audit committee or, at least, its chair) to determine their views about the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity. These inquiries are made, in part, to corroborate the responses received from the inquiries of management.”</p> <p>TIC suggests that the Board consider adding some similar language to this standard, either in paragraph 16 or in the related implementation guidance.</p> | Revised; consistent with AS 2410. |
| 102. | MI | 550.16a | <p>We request the Board provide for an exception for governmental entities from asking those charged with governance to provide their understanding of the entity’s relationships and transactions with related parties that are significant to the entity. The burden of explaining to entities such as a legislature the nature of what related parties are and what should be considered significant to the entity is too onerous and would not likely result in beneficial information.</p> | Note that this comment was not included in comment letters received other state auditors (National State Auditor Association, Washington State Auditor, or the Association of Local Government Auditors). No change. |
| 103. | PwC | 550.16 | <p>Paragraph 16 - We support requiring the auditor to explicitly discuss related parties with those charged with governance, but we suggest AU-C section 550 make clear that management, not the auditor, is responsible for preparing the related party listing.</p> | No change; this comment relates to extant section 550. |
| 104. | ALGA | 550.17.b. | <p>Consider adding “and available preparatory documents” to the sentence “and summaries of actions of recent meetings for which minutes have not yet been prepared” to provide additional guidance on documentation the auditor may inspect.</p> | No change; not in AS 2410. |
| 105. | BDO | 550.18 | <p>The proposed change to AU-C section 550, <i>Related Parties</i> (AU-C section 550), paragraph 18, that requires procedures to be performed on account balances with affiliated entities as of concurrent dates, is unclear as to what procedures are to be performed. We suggest clarifying the procedures contemplated by this requirement within the application guidance.</p> | Comment below suggests the opposite; no change. |

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| 106. | NC | 550.18 | Several of the task force members believe that prescribing specific audit procedures in the Auditing Standards should be done with caution. We believe that selection of appropriate audit procedures are better left to the judgement of the auditor. | Comment above suggests the opposite; no change. |
| 107. | PwC | 550.18 | Paragraph 18 - We do not object to this new requirement. However, the scope of testing of other than routine or recurring intercompany transactions is a judgmental matter giving consideration to the volume, nature and materiality of the transactions and balances and the reporting responsibilities with respect to subsidiary and affiliate financial statements. We believe using the phrase “intercompany account balances” as in AS 2410, would be clearer than referring to “account balances with affiliated entities.” | Revised wording |
| 108. | Crowe | 550.17 | We note that the Proposed Standard revises a section title of AU-C section 550 from “maintaining alertness for” to “evaluating the accuracy and completeness of” related party information. However, the paragraphs included in this section (17-19) do not address accuracy and completeness. Also, paragraph 17 still uses the terms “remain alert”. We note that paragraph 23, as modified in the proposed standard, addresses accuracy and completeness; hence we recommend that paragraph 23 be placed within the section of AU-C 550 currently including paragraphs 17-19. In addition, we note that proposed paragraph 18 appears to support paragraph 23. As such, we recommend moving paragraph 18 to application guidance. | Revised to move amendment from par. 23 to par. 17, and move par. 18 to follow par. 23. Also revised heading before par. 17 |
| 109. | DT | 550.18 | <p>We do not believe that the amendments to the subheading and the insertion of paragraph 18 of AU-C 550 are appropriate when viewed in the context of obtaining information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. D&T notes that the paragraphs to which the subheading is applicable address risk assessment procedures and related activities (see also main heading above paragraph 12 of AU-C 550) and are not requirements that are responsive to the identified risks of material misstatements.</p> <p>The amended subheading in the proposed SAS infers that the auditor is evaluating the accuracy and completeness of the related party information, yet the requirement for the auditor to actually perform this evaluation is in paragraph 23 of AU-C 550 and is an appropriate response to the risks of material misstatement associated with related party relationships and transactions. As such, we recommend that the proposed SAS revert to a heading similar to that previously used in extant, namely Remaining Alert for Related Party Information When Reviewing Records or Documents, as the requirement in paragraph 17 of AU-C 550 to remain alert when reviewing and inspecting records or documents is an appropriate risk assessment procedure.</p> <p>Further, paragraph 18 of AU-C 550 relates to performing procedures pertaining to balances with affiliated entities. Similar to the issue noted above, this requirement is not a risk assessment procedure, rather it is a specific requirement that is applicable to the further audit procedures that the auditor designs and performs when obtaining sufficient appropriate audit evidence about the assessed risk of material misstatement associated with related party relationships and transactions, and related disclosures. D&T recommends that this paragraph be moved to immediately above paragraph 23 of AU-C 550. This placement would correlate with the placement of the equivalent intercompany account paragraph in PCAOB AS 2410 (see paragraph 13 of PCAOB AS 2410). The following minor edits should also be made to paragraph 18 of AU-C 550 so that the use of terminology agrees to that previously used in paragraph 4 of AU-C 550:</p> | Revised to move amendment from par. 23 to par. 17, and move par. 18 to follow par. 23; revised wording of “account balances”; and reverted heading of par. 17. |

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| | | | 18. The auditor should perform procedures on account balances with affiliated entities as of concurrent dates, even if fiscal years of the respective entities differ. The procedures performed should address the risks of material misstatement associated with the entity's accounts balances with affiliates. | |
| 110. | KPMG | 550.21 | <i>To consistently use the phrase "related party transactions that are also significant unusual transactions."</i> In making this determination, the auditor should treat identified <u>related party transactions that are also</u> significant unusual related party transactions as giving rise to significant risks. | Revised to <i>related party transactions that are also significant unusual transactions</i> |
| 111. | EY | 550 | In addition, although the term "significant unusual related party transactions" in the proposed amendments to AU-C Section 550, <i>Related Parties</i> , is not defined, we believe it is intended to refer to the same type of transactions described in PCAOB Auditing Standard 2410, <i>Related Parties</i> : "related party transactions that are also significant unusual transactions." Because this proposal is intended to reduce unnecessary differences between AICPA and PCAOB auditing standards, we recommend that the ASB align its terminology with that used in the PCAOB auditing standards. | Revised to <i>related party transactions that are also significant unusual transactions</i> |
| 112. | TIC | 550. 23 | In addition, paragraph 23 of the ED indicates the following: As part of the requirement in section 330 that the auditor respond to assessed risks, the auditor should evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties. The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions, <i>including procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the entity, taking into account the information gathered during the audit.</i> TIC questions whether implementation guidance could be added, similar to Appendix A of PCAOB AS 2410, to provide examples of information that could be considered to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the entity. | See paragraphs .A22-.A26 of AU-C 550 |
| 113. | LL | 550.23 | 550.23 adds "including procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties . . .". An example of procedures to test for completeness would be helpful. A36 gives examples that seem to apply when the auditor knows of a transaction. What procedures could be performed to identify unknown related party transactions? | See paragraphs .A24 of AU-C 550 |
| 114. | PwC | 550.23 | Paragraph 23 - Reference to evaluating whether the entity has properly identified its related parties and relationships and transactions with related parties is addressed by paragraph 17. As such, we are concerned the additional language in paragraph 23 is not relevant here. We do not object to the new requirement to "[perform] procedures to test the accuracy of | Agree; moved additional language in par. 23 to par. 17. |

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| | | | completeness” of related party transactions, but we note the nature and extent of testing necessary will depend on the assessed risks of material misstatement. | |
| 115. | DT | 550.23 | <p>D&T notes that the further audit procedures designed and performed by the auditor include an evaluation of the accuracy and completeness of the related party information provided by the entity. However, as highlighted in paragraph 14 of PCAOB AS 2410, this evaluation is in addition to an assessment by the auditor of the process used by the entity to identify its related parties and relationships and transactions with related parties. The proposed SAS addresses the statement about this assessment by way of an amendment to application guidance paragraph A35 of AU-C 550. D&T believes, however, given the importance of this assessment as a basis for the auditor to perform the further audit procedures, that such statement should be included in the requirement paragraph 23 of AU-C 550 as “essential guidance.” See the recommended edits to paragraph 23 of AU-C 550 as follows (consequently, no amendments would be proposed to paragraph A35 of AU-C 550, and it should revert to extant language):</p> <p>23. As part of the requirement in section 330 that the auditor respond to assessed risks, the auditor should evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties. Evaluating whether an entity has properly identified its related parties and relationships and transactions with related parties involves more than assessing the process used by the entity. The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions, including procedures to testevaluate the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the entity, taking into account the information gathered during the audit.</p> | Proposed language to par. 23 moved to par. 17; the sentence proposed to be added to A35 was moved to new A22A. |
| 116. | KPMG | 550.26 | <p><i>We do not agree with the edit as drafted. The intent was not to identify significant unusual related party transactions but to require procedures when significant related party transactions are also significant unusual transactions.</i></p> <p>Identified Significant Unusual Related Party Transactions <u>That Are also Significant Unusual Transactions</u> For identified significant unusual related party transactions <u>that are also significant unusual transactions</u>, the auditor should...</p> | Revised |
| 117. | ALGA | 550.26.a. | Consider adding “and applicable related documentation” to provide additional guidance on documentation the auditor may inspect. The paragraph would then read “inspect the underlying contracts or agreements and applicable related documentation...” | No change; overly prescriptive |
| 118. | PwC | 550.A11 | Paragraph A11 - We note the change to this paragraph to provide each component auditor with “information about related parties.” We believe this paragraph should be aligned with the changes proposed to additional language from paragraph 41 of AU-C section 600, which explains that a list of related parties, including the nature of the company’s relationships and transactions with those related parties, should be provided. | Revised to be consistent with AU-C 600.41 |

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| 119. | BDO | 550.A11 | The proposed change to AU-C section 550, paragraph A11 is currently silent with regard to the communication between a group auditor and a component auditor relative to the communication of related party transactions. We suggest including language similar to PCAOB AS 2410, <i>Related Parties</i> , paragraph 9 that includes consideration of the nature of the company’s relationships and transactions with related parties. We recognize that this type of communication is discussed as part of AU-C section 600; however, we believe further discussion in the application guidance of AU-C section 550 should be considered to provide specificity about the meaning of the proposed language ‘information about related parties.’ | Revised to be consistent with AU-C 600.41 |
| 120. | DT | 550.A16 | Paragraph 6 of PCAOB AS 2410 refers to footnote 6, the specifics of which we do not believe were addressed in the amendments to paragraph A16 of AU-C 550. Footnote 6 of PCAOB AS 2410 further clarifies that the population of the related parties or relationships or transactions with related parties previously undisclosed to the auditor extends to those known and previously unknown related parties. See the following edits to paragraph A16 of AU-C 550: A16. Others within the entity are those considered likely to have knowledge of the entity’s related party relationships and transactions and the entity’s controls over such relationships and transactions, as well as the existence of related parties or relationships or transactions with related parties previously undisclosed to the auditor, whether such relationships or transactions were with known or previously unknown related parties . These may include, to the extent that they do not form part of management, the following: | Revised |
| 121. | KPMG | 550.A16 | <i>To broaden the extent of personnel in a position to initiate, process, or record transactions with related parties, not solely significant unusual transactions. In addition, we recommend including the other examples in AS 2410.06 FN5, which lists the examples of personnel and includes HR director or equivalent</i> <ul style="list-style-type: none"> • Personnel in a position to initiate, authorize, process, or record <u>related party significant unusual transactions that are also significant unusual transactions</u> and those who supervise or monitor such personnel • <u>the human resources director or person in equivalent position</u> | Revised |
| 122. | ALGA | 550.A16 third bullet. | Consider changing the third bullet point to read “The Chief Audit Executive and the internal audit function” and adding the chairperson of the audit committee to the list to clarify and provide additional guidance on others with the entity that may have knowledge of related party relationships. | No change |
| 123. | BDO | 550.A16 | We suggest that AU-C section 550, paragraph A16 include a bullet point to include inquiry with sales personnel, as they may have knowledge over such related party transactions. | No change |
| 124. | ALGA | 550.A18. | Consider adding “The existence and monitoring of a fraud reporting hotline or equivalent” to provide additional guidance on items the auditor may consider a feature or element of mitigating the risks of material misstatement. | No change; addressed in last bullet |
| 125. | ALGA | 550.A24 fifth bullet | For consistency purposes, consider changing the phrase “outside the entity’s normal course of business” to “significant unusual transactions.” This change was not reflected in the exposure draft. | Bullet reads “Agreements for the provision of services to certain parties under terms |

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| | | | | and conditions that are outside the entity's normal course of business". No change |
| 126. | NASBA | 550.A35 | In paragraph A35 on page 22 of the Statement, the ASB refers to the procedures to be performed in evaluating whether an entity has properly identified its related parties and relationships and transactions with related parties. NASBA recommends linking the paragraph A35 to the examples of the procedures to identify the existence and completeness of related party information listed in paragraph 17 on page 16. | Kept as application material and linked to par. 17 |
| 127. | LL | 550.A35 | 550.A35 adds “. . . involves more than assessing the process used by the entity.” What process? The idea is unclear or incomplete. | No change |
| 128. | GT | 550.A35 | Corresponding to our suggested changes to 550.23 above, we recommend revising the ordering of the sentences so that the proposed addition comes after the extant language as opposed to before, as currently proposed. | Addition moved to new paragraph, linked to par. 17 |
| 129. | GT | 550.A42 | We believe “unusual” should be added to the italicized title just above paragraph .A42 (as shown below), in order to remain consistent with the rest of this section: <i>Evaluating the Business Purpose of Significant Unusual Related Party Transactions</i> | Revised |
| 130. | DT | 550.A53 | Paragraph A53 of AU-C 550 includes amendments to address communications with those charged with governance as outlined in paragraph 19 of PCAOB AS 2410. We recommend that the following edits be made to paragraph A53 of AU-C 550 in order to more closely align with the structure and intent of paragraph 19 of PCAOB AS 2410: <ul style="list-style-type: none"> • Second bullet / third bullet below. We believe that the amendment in the proposed SAS should be reflected as a separate bullet to give appropriate prominence and focus to those significant related party transactions that lack a business purpose. • Fourth bullet / fifth bullet below. The proposed amendment related to disclosures in the financial statements of related party transactions conducted on terms equivalent to those prevailing in an arm's-length transaction is drafted such that it only pertains to disagreements with management. Paragraph 19d of PCAOB AS 2410 addresses the communication of such related party arm's-length transactions irrespective of whether there was such a disagreement. D&T believes that all arm's-length transactions disclosed in the financial statements should be communicated to those charged with governance, as well as the evidence obtained by the auditor to support or contradict such an assertion made by management. <p>A53. Communicating significant findings or issues arising during the audit in connection with the entity's related parties helps the auditor establish a common understanding with those charged with governance of the nature and resolution of these matters. Examples of significant related party findings and issues include the following:</p> | Revised as proposed to more closely align to PCAOB amendments |

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| | | | <ul style="list-style-type: none"> • Nondisclosure (whether or not intentional) by management to the auditor of related parties or significant related party transactions, which may alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware • The identification of significant related party transactions that have not been appropriately authorized and approved or that appear to lack a business purpose, which may give rise to suspected fraud • The identification of significant related party transactions that appear to lack a business purpose • Disagreement with management regarding the accounting for, and disclosure of, significant related party transactions, including disagreements regarding the inclusion of a statement in the financial statements that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm’s-length transaction • The inclusion of a statement in the financial statements that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm’s-length transaction and the evidence obtained by the auditor to support or contradict such an assertion | |
| 131. | GT | 550.A53 | We believe the amendment to change “and” to “or” was proposed in order to achieve consistency with the language used throughout AU-C section 260. If this is indeed the case, we recommend the Board make a similar amendment to the other two instances in AU-C 550 where “findings and issues” is used, specifically paragraph .27 in extant and the lead-in to the bullets of proposed paragraph .A53. | Revised |
| 132. | Crowe | 560 | We have no objections to the proposed changes in AU-C section 560, related to additional subsequent events inquires related to related parties, related party transactions, and significant unusual transactions. However, we note that in the paragraph on page 34 of the Proposed Standard that presents the objective of the proposed amendments to this section, the wording from the proposed changes to AU-C section 510 were carried over in error. We recommend that is be replaced with wording specific to AU-C section 560. | Corrected. |
| 133. | DT | 560.A6 600.41c | <p>Entity versus Company</p> <p>D&T notes two instances where <i>entity</i> should be used instead of <i>company</i> in the proposed SAS:</p> <ul style="list-style-type: none"> • AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>, paragraph A6 (last bullet). • AU-C section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors), paragraph 41c. | Revised. |

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| 134. | ALGA | 580 | AU-C section 560 was amended to include “whether the company has entered into any significant unusual transactions” when inquiring of management. For the purpose of consistency across auditing standards, consider including written representation in regards to significant unusual transactions in AU-C section 580. | No change; these are covered by par. 17b and .18 of AU-C 580. |
| 135. | DT | 580.17 930.21 | <p>D&T notes that the amendment to the requested written representations in paragraph 17a of AU-C 580 and paragraph 21m of AU-C 930 respectively, is such that management need only <i>adequately</i> disclose to the auditor the identity of all the entity’s related parties and all the related party relationships and transactions of which it is aware. We believe that inserting the word <i>adequate</i> in these two instances will create confusion as similar amendments haven’t been made to address other disclosure-related representations made by management, for example; paragraph 12 of AU-C section 580, addresses disclosures made by management relating to fraud. In our view, <i>adequate disclosures</i> is also not compatible with the request that the representation describe the identity of <i>all</i> the entity’s related parties and all the related party relationships and transactions of which it is aware. See the following edits to address these concerns, as well as other minor suggested edits for clarification:</p> <p>17. The auditor should request management to provide written representations that</p> <p>a. it has adequately disclosed to the auditor the identity of all the entity’s related parties and all the related party relationships and transactions of which it is aware and</p> <p>b. it has appropriately accounted for and disclosed such relationships and transactions with related parties, in accordance with the applicable financial reporting framework.</p> <p>21. For all interim financial information presented and for all periods covered by the review, the auditor should request management to provide written representations, as of the date of the auditor’s review report . . .</p> <p>m. that management has adequately disclosed to the auditor the identity of all the entity’s related parties and all the related party relationships and transactions of which it is aware, and it has appropriately accounted for and disclosed such relationships and transactions with related parties, in accordance with the applicable financial reporting framework.</p> | <p>The placement of the word “adequately” will be moved to bullet b, to be more consistent with PCAOB amendment.</p> <p>Phrase “with related parties, in accordance with the applicable financial reporting framework” is not used in PCAOB standard and not used consistently throughout GAAS; no change.</p> |
| 136. | PwC | 580.17a | Paragraph 17a - We do not believe it is necessary to make the change to state that management has “adequately” disclosed to the auditor the identity of “all” the entity’s related parties and all related party relationships of which it is aware. We believe the written representation would ordinarily focus on those related party transactions that are required to be accounting for and disclosed (i.e., material related party transactions). | See above |
| 137. | Crowe | 580.A15 | The proposed standard includes revisions to AU-C section 580, <i>Written Representations</i> , paragraph A15, related to management’s oral representations about related party transactions. We note that the added wording is not the same as the wording in extant AU-C section 550, paragraph 25, which refers to obtaining appropriate audit evidence when management has made an assertion “in the financial statements” to the effect that a related party transaction was conducted at arm’s length terms. We don’t believe the auditor should extend audit procedures for an assertion about a related party transaction that is not in the financial statements. Thus, we propose that the underlined words shown here be added within paragraph A15: “..., including support for any assertion <u>in the financial statements</u> that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm’s-length transaction.” | Changed proposed amendment to instead revise 580.A16, which addresses specific assertions that management may have made. |

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| 138. | GT | 580.A15 | We ask the Board to clarify the proposed addition to the second bullet of this paragraph. It is unclear whether it is intended to mean when TCWG provides specific oral representations about the support for any assertion or when TCWG has provided the support itself. | Changed proposed amendment to instead revise 580.A16, because PCAOB amendment is not specific to TCWG |
| 139. | GT | 580.A18 | We recommend the Board consider revising the language of the proposed last bullet to this paragraph to align with the language proposed in AU-C section 930.A30, by replacing “undisclosed” with “that have not been disclosed.” | Revised to “Whether any side agreements or other arrangements (either written or oral) undisclosed have not been disclosed to the auditor.” |
| 140. | LL | 580.A18 930.A30 | 580.A18 and 930.A30 adds “The absence of side agreements or other arrangements (either written or oral) undisclosed to the auditor.” This language is confusing as to what the representation would be: there are no side agreements or there are no side agreements undisclosed. I recommend language such as “All side agreements or other arrangements (either written or oral) have been disclosed to the auditor.” | Revised to “ Whether any side agreements or other arrangements (either written or oral) undisclosed have not been disclosed to the auditor. ” |
| 141. | LL | 600.41 | 600.41 adds “including the nature of the company’s relationships and transactions with those related parties.” “The company” refers to “the group” or “the component”? I recommend using more precise language to communicate what the ASB intends. | Changed to “the entity”. |
| 142. | ALGA | 600.A94 | There is a list item that states “Business rationale for the events and transactions that gave rise to the consolidation adjustments.” This should be updated to “Business purpose for the events and transactions that gave rise to the consolidation adjustments,” to adhere to the goal of consistent language. This change was not reflected in the exposure draft. | Revised |
| 143. | GT | 930.A55 | We note another use of the term “special purpose entities” in this paragraph. Consistent with our comment on AU-C section 240.A54 above, we recommend updating to a term that is more currently used in GAAP. | Out of scope. |
| 144. | Crowe | 940.A25 | Related to the proposed amendment to AU-C section 940, it is not clear why the ASB chose to identify a control that might address the risk of material misstatement due to fraud as “Controls over significant or unusual transactions” as opposed to “Controls over significant unusual transactions”, given that a key element of this proposed standard is to define the term “significant unusual transactions”. We recommend that the newly defined term be used consistently. | Revised |
| 145. | KPMG | 940.A25 | Controls over significant or unusual transactions, particularly those that result in late or unusual journal entries. <i>If a stated objective of the proposed amendments is to consistently use the phrase “significant unusual transactions”, we either believe this edit is an error or we do not understand the context and additional application material is necessary.</i> | Revised |
| 146. | EY | 940.A25 | ► Section 240 addresses the auditor’s identification and assessment of the risks of material misstatement due to fraud. Controls that might address these risks include | Revised |

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| | | | <p>► controls over significant, unusual transactions, particularly those that result in late or unusual journal entries;</p> <p>EY comment: We recommend removing the comma between the words significant and unusual to consistently use the same term.</p> | |
| 147. | EY | 940.A91 | <p>► Risk factors affect whether there is a reasonable possibility that a deficiency, or a combination of deficiencies, in ICFR will result in a misstatement of an account balance or a disclosure. The factors include the following:</p> <p>► Controls over significant transactions outside the entity’s normal course of business</p> <p>EY comment: We believe the ASB should also use the term significant unusual transactions in this case to make clear that this guidance applies to transactions that are unusual based on their size, nature or timing but are not outside the normal course of an entity’s business. We note that auditors may interpret the current language to exclude certain transactions that would be considered unusual for these reasons. We believe this change would reduce unnecessary differences between the AICPA and PCAOB standards and contribute to audit quality by making clear that the guidance applies to these transactions.</p> | Revised |
| 148. | PwC | Effective date | <p>Although relatively minor, the impact of the proposed changes to the auditing standards on firms’ guidance and tools may be significant depending on how each firm chooses to incorporate the requirements and application material in the AU-Cs into its guidance. When setting effective dates, we believe the ASB should consider that there are multiple projects in process and the challenges of making repeated changes to firm guidance as each is released.</p> <p>The ASB currently has three separate proposals out for public comment:</p> <ul style="list-style-type: none"> ● This exposure draft, which affects a number of AU-C sections ● A proposal related to auditor reporting, which includes changes related to AU-C section 260, <i>The Auditor’s Communications With Those Charged With Governance</i> ● A proposal related to other information, which also impacts reporting <p>We support having the same effective date for the suite of standards so that firms can update their guidance and tools - and train auditors on these changes - in the most effective manner. Our separate comment letter in response to proposed AU-C section 720, <i>The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports</i>, notes our view that the proposed SAS needs significant revision before it could be effectively implemented and achieve its intended objectives, and may require re-exposure before it can be finalized. We therefore suggest the ASB plan for the suite of standards currently under revision to become effective no sooner than for periods ending on or after December 15, 2020.</p> | Recommend that these amendments have the same effective date as the auditor reporting suite of standards. |
| 149. | ALGA | Effective date | We agree that an effective date of financial statement audits for periods ending on or before June 15, 2019 is appropriate, as it will provide users with time to assess the impacts of the changes to financial statement audits. | Recommend that these amendments have the same |

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| | | | | effective date as the auditor reporting suite of standards. |
| 150. | BT | Effective date | We believe an effective date of less than a year from the date that the proposed standard is finalized will not allow auditors sufficient time to update their audit methodologies, therefore, we recommend that the proposed effective date be at least one year from the date that the proposed standard is finalized. | Recommend that these amendments have the same effective date as the auditor reporting suite of standards. |
| 151. | Crowe | Effective date | The proposed effective date appears to be appropriate. | Noted |
| 152. | EY | Definitions | Lastly, to make sure that stakeholders understand and apply the term significant unusual transactions consistently, we recommend that the term be defined or referenced in the definition section of every auditing standard affected by conforming amendments. We also recommend that the AICPA reconsider how defined terms are identified in its standards. For example, we recommend that all defined terms be clearly flagged using boldface type or italics. We believe that clearly identifying defined terms throughout the standards will improve the understandability of the standards and reduce the risk that the terms might be misapplied. | Defined terms are too widely used throughout GAAS for bolding or italicizing to be practicable. |