



Agenda Item 1

Omnibus Statement on Auditing Standards—2018

Issues

Objective of Agenda Item

To review revisions to Proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards —2018* and vote to ballot for issuance as a final standard

Task Force

Convergence Task Force members are:

- Jan Herringer, Chair
- Bridgett Gyorfi
- Laura Schuetze
- Courtney Drake
- Dan Wernke

Background

The mission of the Auditing Standards Board (ASB) is to serve the public interest by developing, updating, and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner. The ASB accomplishes this mission in part by developing auditing, attestation, and quality control standards that inspire public trust in the profession. In developing and updating auditing standards, the ASB considers the standards of other standard-setters, such as the International Auditing and Assurance Standards Board (IAASB), the PCAOB, and the General Accounting Office (GAO).

Since the ASB completed its auditing standards clarity project, which clarified generally accepted auditing standards (GAAS) and converged them with the International Standards on Auditing (ISAs) issued by the IAASB, the PCAOB has issued Auditing Standard (AS) 1301, *Communication With Audit Committees*; AS 2701, *Supplementary Information*; and AS 2410, *Related Parties* (AICPA, PCAOB Standards and Related Rules). The release of these auditing standards included conforming amendments to other PCAOB auditing standards. The ASB considered whether these three standards included material that, if included in the requirements

or application material of GAAS, would enhance audit quality for audits of financial statements of nonissuers in an effective and efficient manner.

The ASB reviewed the three PCAOB auditing standards 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.

With regard to its evaluation of material from AS 2701 no changes to GAAS are being proposed. Release No. 2013-008, *Auditing Standard No. 17—Supplementary Information Accompanying Audited Financial Statements*, explains that a primary consideration in developing AS 2701 related to the PCAOB’s oversight of brokers and dealers in securities. After consideration of the PCAOB’s objective and evaluating the sufficiency of the procedures and reporting in existing GAAS, the ASB concluded that no amendments to GAAS are necessary.

The proposed SAS, *Omnibus SAS—2018*, proposed amendments to 13 AU-C sections, with the most substantive amendments to AU-C section 260, *Communications With Those Charged With Governance*, AU-C section 550, *Related Parties*, and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*.

The exposure draft of the proposed SAS was issued in November 2017. Comments were due on May 15, 2018.

I. Changes to the July draft as directed by the ASB

The ASB discussed the comments received at its July 23-26, 2018 meeting and directed the Task Force to make the following changes:

AU-C 260, page 2, par. 12	Change addition to bullet “f” to be a separate bullet
AU-C 550, page 5, par. 15c; page 12, par. A22	Retain “outside the normal course of business” to modify “arrangements”, and inserted a comma to clarify that.
AU-C 550, page 6, par. 17; page 12, par. A23	Heading changed from “Maintaining Alertness” to “Remaining Alert”
AU-C 550, page 6, par. 17 and par. 22	Reject move of requirement to “evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties” to par. 17 and retain in par. 22
AU-C 550, page 6, par.22; page 11, par. A22A; page 12, par. A35	Delete par. A22A and revert to placing proposed amendment in par. A35. Note that the Task Force is now proposing that the proposed amendment be incorporated in par. 22, because that provides the best flow and is closest to the wording in AS 1401.
AU-C 550, page 7, par. 26	Revise wording to indicate that significant unusual related party transactions include those that are required to be disclosed or determined to be a significant risk.

AU-C 240, page 18, par. 11, and page 20, par. A8A	Added application material to the definition of “significant unusual transaction”, as described in section II below.
AU-C 580, page 29, par. 17; AU-C 930, page 32, par. 21	Deleted “adequately”
AU-C 580, page 30, par. A18, last bullet; AU-C 930, page 32, par. A30	Reverted to previous wording

II. Change to the July draft as directed by the ASB

In addition, the ASB asked the Task Force to consider application material to the definition of “significant unusual transactions”.

The following sentence was deleted from paragraph A139 of AU-C 315: “*Nonroutine transactions* are transactions that are unusual, either due to size or nature, and that, therefore, occur infrequently”.

The ASB suggested that this sentence be added as application material to the definition of “significant unusual transactions”. Significant unusual transactions are defined 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.*

Suggested application material, that does not repeat too much from the definition, is as follows:

Definitions (Ref: par. 10)

A8A. Transactions that are unusual due to their timing are nonroutine and occur infrequently.

Note that the word “nonroutine” has been changed to “unusual” everywhere in GAAS except for the following three usages, for which the Task Force believes “nonroutine” is more appropriate.

Appendix B — Internal Control Components (Ref: [par. .04](#), [.15–.25](#), and [.A78–.A121](#))

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This appendix further explains the components of internal control, as set out in [paragraphs .04](#), [.15–.25](#), and [.A78–.A121](#), as they relate to a financial statement audit.

...

Certain control activities may depend on the existence of appropriate higher level policies established by management or those charged with governance. For example, authorization controls may be delegated under established guidelines, such as investment criteria set by those charged with governance; alternatively, **nonroutine** transactions, such as major acquisitions or divestments, may require specific high level approval, including, in some cases, that of shareholders.

Monitoring of Controls

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Appendix C — Conditions and Events That May Indicate Risks of Material Misstatement (Ref: [par. .A40](#) and [.A135](#))

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The following are examples of conditions and events that may indicate the existence of risks of material misstatement. The examples provided cover a broad range of conditions and events; however, not all conditions and events are relevant to every audit engagement, and the list of examples is not necessarily complete.

- ...
- Significant amount of **nonroutine** or nonsystematic transactions, including intercompany transactions and large revenue transactions at period-end

AU-C 540.A60 The auditor’s decision about which response, individually or in combination, in [paragraph .13](#) to undertake to respond to the risks of material misstatement may be influenced by such matters as the following:

- The nature of the accounting estimate, including whether it arises from routine or **nonroutine** transactions

Question for ASB consideration

Does the ASB agree that the word “nonroutine” should be retained in these three usages?

III. Effective date of the Omnibus SAS

The provisional effective date proposed in the exposure draft was not earlier than for audits of financial statements for periods ending on or after June 15, 2019. This effective date was

selected to align with the proposed effective date for auditor reporting and other information standards. The Task Force continues to believe that aligning the proposed effective date for the omnibus SAS with the effective date of the proposed auditor reporting standards is appropriate.

If the ASB determines it appropriate to have an effective date for the Omnibus SAS that is earlier than the effective date of those other standards, the Omnibus SAS would have to be revised to no longer reflect proposed amendments to AU-C 260 and AU-C 210 coming from the proposed auditor reporting and other information standards. Those revisions would not be extensive. (Required revisions: AU-C 210, renumber par. A33 as A31; AU-C 260, delete par. 12d; change “during” to “from” in par. 12g; adjust paragraph numbering.)

Question for ASB consideration

Does the ASB agree with aligning the effective date for the Omnibus SAS and the auditor reporting SAS?

Materials

- 1A Proposed SAS, *Omnibus Statement on Auditing Standards—2018*, marked from July draft
- 1B Proposed SAS, *Omnibus Statement on Auditing Standards—2018*, clean