



National Association of State Boards of Accountancy

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Via email: Sherry.Hazel@aicpa-cima.com

Re: Proposed SAS: *Omnibus Statement on Auditing Standards - 2018*

Dear Members of the AICPA Auditing Standards Board (ASB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments to the above referenced Proposed Statement on Auditing Standards (the Statement). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs.

In furtherance of that objective, NASBA offers the following responses to the specific questions raised in the Statement as well as additional comments.

Responses to the Specific Questions

Issue 1: Significant Unusual Transactions

*As described previously, amendments are proposed to define significant unusual transactions and to use the term consistently throughout GAAS. The ASB believes that audit quality may be enhanced if the use of the term **significant unusual transactions** were to be consistent between GAAS and PCAOB standards. A definition of **significant unusual transactions** 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" is proposed as an amendment to AU-C section 240. Alternatively, the phrase "significant transactions that are outside the normal course of business or that otherwise appear to be unusual" could be used consistently throughout GAAS; currently the phrase "that otherwise appear to be unusual" is not always included.*

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.

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”.

Issue 2: Proposed Amendment to AU-C section 240

PCAOB Release No. 2014-002 includes conforming amendments to AS 2401 to require specified procedures for the auditor to evaluate fraud risks arising from significant unusual transactions. A proposed amendment to GAAS would amend paragraph .32 of AU-C section 240. Paragraph .32 requires the auditor, among other things, to evaluate whether the business purpose (or the lack thereof) of significant unusual transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. The proposed amendment would require that the evaluation include the following procedures:

- 1. 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*
- 2. Determining whether the transaction has been authorized and approved in accordance with the entity’s established policies and procedures*
- 3. Evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any*
- 4. Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements*

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.

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 judgement.

Ms. Sherry Hazel
AICPA Auditing Standards Board
May 9, 2018
Page 3 of 3

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.*”

Additional Comments

1. 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.
2. 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.

* * *

We appreciate the opportunity to comment on the Statement.

Very truly yours,



Theodore W. Long, Jr., CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO