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## **Proposed Statement on Auditing Standards, Omnibus Statement on Auditing Standards – 2018**

Dear Ms. Hazel:

Ernst & Young LLP (EY) is pleased to submit this comment letter to the Auditing Standards Board (ASB or Board) in response to the ASB's request for comment on its proposed Statement on Auditing Standards (SAS), *Omnibus Statement on Auditing Standards – 2018*.

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.

The attachment includes our comments on the issues for consideration in the proposed SAS and our recommendations to further clarify and align the standards of the American Institute of Certified Public Accountants (AICPA) with the PCAOB standards. We would be pleased to discuss our comments with members of the ASB or its staff at your convenience.

Sincerely,

*Ernst & Young LLP*

**Attachment – Comments on issues for consideration in the proposed SAS and other recommendations****Issue 1: Significant unusual transactions**

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.

Reference	AU-C paragraphs that we recommend changing
AU-C 315.A35	<ul style="list-style-type: none"><li>▶ An understanding of the entity's selection and application of accounting policies may encompass such matters as<ul style="list-style-type: none"><li>▶ the methods the entity uses to account for <b>significant and unusual transactions</b>.</li></ul></li></ul> <p><b>EY comment:</b></p> <p>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>
AU-C 315.A139	<ul style="list-style-type: none"><li>▶ Significant risks often relate to <b>significant nonroutine transactions</b> and matters that require significant judgment. <b>Nonroutine transactions</b> are <b>transactions that are unusual, either due to size or nature, and that, therefore, occur infrequently</b>. Matters that require significant judgment may include the development of accounting estimates for which a significant measurement uncertainty exists.</li></ul> <p><b>EY comment:</b></p> <p>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>

Reference	AU-C paragraphs that we recommend changing
AU-C 315.A140	<ul style="list-style-type: none"> <li>▶ Risks of material misstatement may be greater for <b>significant nonroutine transactions</b> arising from matters such as the following:</li> </ul> <p><b>EY comment:</b></p> <p>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>
AU-C 315.A144	<ul style="list-style-type: none"> <li>▶ Although risks relating to <b>significant nonroutine transactions</b> 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.</li> </ul> <p><b>EY comment:</b></p> <p>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>
AU-C 940.A25	<ul style="list-style-type: none"> <li>▶ 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 <ul style="list-style-type: none"> <li>▶ controls over <b>significant, unusual transactions</b>, particularly those that result in late or unusual journal entries;</li> </ul> </li> </ul> <p><b>EY comment:</b></p> <p>We recommend removing the comma between the words significant and unusual to consistently use the same term.</p>

Reference	AU-C paragraphs that we recommend changing
AU-C 940.A91	<ul style="list-style-type: none"> <li>▶ 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: <ul style="list-style-type: none"> <li>▶ Controls over <b>significant transactions outside the entity's normal course of business</b></li> </ul> </li> </ul> <p><b>EY comment:</b></p> <p>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>

In addition, although the term “significant unusual related party transactions” in the proposed amendments to AU-C Section 550, *Related Parties*, is not defined, we believe it is intended to refer to the same type of transactions described in PCAOB Auditing Standard 2410, *Related Parties*: “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.

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.

## Issue 2: Proposed amendment to AU-C section 240

We support the ASB’s proposed amendment to AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*, 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.