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

The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

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.

Our responses to the items requested are noted below:

***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.**

We support the definitional change to provide for consistent guidance for *significant unusual transactions* as used and applied throughout GAAS.

***Issue 2: Proposed Amendment to AU-C section 240***

**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.**

Our responses are as follows:

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.**

We agree with these proposed specified procedures.

2. **Determining whether the transaction has been authorized and approved in accordance with the entity's established policies and procedures.**

We agree with these proposed specified 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.**

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.

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.

4. **Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements.**

We agree with these proposed specified procedures.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Matthew J. Lombardi  
Chair  
Accounting Principles and Assurance Services Committee  
California Society of Certified Public Accountants