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May 15, 2018

Sherry Hazel
AICPA Auditing Standards Board

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

Dear Ms. Hazel,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the AICPA's proposed statement on auditing standards *Omnibus Statement on Auditing Standards – 2018* exposure draft. ALGA represents more than 350 organizational members comprised of more than 2,500 individuals. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

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).

Our answers for the two areas AICPA requested feedback on and our other general comments are as follows:

1. ***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 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.

2. ***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.***

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.

3. ***General Comments.***

- a. 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 *new* contract. To help lessen potential misinterpretations, consider revising the phrase to read “participated in any significant unusual transactions.”
- b. ***SAS No. 122, AU-C Section 240, Paragraph .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.
- c. ***SAS No. 122, AU-C Section 240, Paragraph .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.
- d. ***SAS No. 122, AU-C Section 240, Paragraph .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.
- e. ***Extant SAS No. 122, AU-C Section 240, Paragraph .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.
- f. ***SAS No. 122, AU-C Section 550, Paragraph .17.b.*** 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.
- g. ***SAS No. 122, AU-C Section 550, Paragraph .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...”

- h. **SAS No. 122, AU-C Section 550, Paragraph .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.
- i. **SAS No. 122, AU-C Section 550, Paragraph .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.
- j. **Extant SAS No. 122, AU-C Section 550, Paragraph .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.
- k. **SAS No. 122, AU-C Section 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.
- l. **Extant SAS No. 122, AU-C Section 600 Appendix A p. 70.** 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.

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.

Thank you for the opportunity to provide input in the review process.

Respectfully submitted,

Nicole Rollins
Chair, Professional Issues Committee

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