OSA Response:
See responses to AICPA questions below.

Summary:
Effective for audits of financial statements for periods ending on or after December 15, 2023. The proposed changes will affect the FY25 CAFR.

Supersedes AU-C 315 and amends various AU-C’s
The CAFR workpapers already follow these proposed guidelines for the most part. There will be minor changes necessary to the workpapers when it comes time to implement this standard for the FY25 CAFR. The updates to terminology, definitions, and documentation are necessary to bring the AU-C in line with international standards. There are even some undertones of the green book standards for the 17 elements of internal controls.

AICPA Questions
1. Are the requirements and application material of the proposed SAS sufficiently scalable, that is, is the proposed SAS capable of being applied to the audits of entities with a wide range of sizes, complexities, and circumstances?

   OSA Response: Yes, OSA concurs the proposed SAS provides the necessary guidance to apply this SAS to complex and non-complex entities.

2. Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks of material misstatement? Specifically:

   a. Have the requirements related to the auditor’s understanding of each component of the entity’s system of internal control been appropriately enhanced and clarified? Is it clear why the understanding is obtained and how this informs the risk identification and assessment process?

      OSA Response: Yes, OSA concurs the requirements have been appropriately enhanced and clarified.

   b. Have the requirements related to the auditor’s identification of controls that address the risks of material misstatement been appropriately enhanced and clarified? Is it clear how controls that addressed the risks of material misstatement are identified, particularly for audits of smaller and less complex entities?

      OSA Response: Yes, OSA generally concurs. The guidance appears to be appropriately enhanced and clarified.

   c. Given that COSO’s 2013 Internal Control—Integrated Framework (COSO framework) is often used by entities subject to the AICPA’s generally accepted auditing standards, is the terminology in paragraphs 21–27 and related application material of the proposed SAS clear and capable of consistent interpretation for audits of entities that use the COSO framework?

      OSA Response: Yes, OSA concurs paragraphs 21-27 are clear and capable of consistent interpretation in regards to the COSO framework. In addition, it would be helpful to reference the GAO Green Book as a useful reference for internal controls here as well.
3. Are the enhanced requirements and application material related to the auditor’s understanding of the IT environment, the identification of the risks arising from the entity’s use of IT, and the identification of general IT controls clear to support the auditor’s consideration of the effects of the entity’s use of IT on the identification and assessment of the risks of material misstatement?

OSA Response: OSA generally concurs.

4. Do you support the introduction in the proposed SAS of the new concepts and related definitions of significant classes of transactions, account balances, and disclosures, and their relevant assertions? Is there sufficient guidance to explain how they are determined (that is, that an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to that assertion), and how they assist the auditor in identifying where risks of material misstatement exist?

OSA Response: OSA generally concurs.

5. Do you support the introduction of the spectrum of inherent risk into the proposed SAS?

OSA Response: I think this is an unnecessary distinction. We already assess risk at high medium or low, I'm not sure we need a “spectrum” here.

6. Do you support the separate assessments of inherent and control risk in relation to all risks of material misstatement at the assertion level?

OSA Response: OSA found the enhanced guidance and new concepts to be clear, concise and helpful, especially the listing of significant disclosures in p.226.

7. What are your views regarding the clarity of the requirement to assess the control risk, in particular, when the auditor does not plan to test the operating effectiveness of controls?

OSA Response: Unless we missed something, paragraph 34 says if the auditor does not plan to test the operating effectiveness of the control then the inherent risk is used to set the risk level of the control. This seems very obvious so we are not sure why this is an enhancement. Its possible we would have to replace “N/A” for some of the disclosures that we do not associate a risk with because they do not contain financial information to the inherent risk level but that seems like we would be assigning risk where we do not believe one to be.

8. What are your views regarding the clarity of the requirement in paragraph 26d of the proposed SAS to evaluate design and determine implementation of certain control activities (including, specifically, the requirement related to controls over journal entries)?

OSA Response: P. 26d says the auditor should evaluate the design of the control by (A196) establishing that the control exists and the entity is using it. Aren’t auditors already doing this? Again, unless we missed something this seems unnecessary. However, 26a ii adds a particular emphasis on the controls over journal entries which would need to be more thoroughly documented and evaluated during the CAFR. There are few controls over journal entries as we find many journal entries booked and re-booked due to mistakes because there is no secondary review over journal entries at OMB.

9. Do you support the revised definition, and related material, on the determination of significant risks? What are your views on the matters previously presented relating to how significant risks are determined based on the spectrum of inherent risk?

OSA Response: We think this is an unnecessary distinction. We already assess risk at high medium or low,

10. What are your views about the proposed stand-back requirement in paragraph 36 of the proposed SAS and the conforming amendments proposed to paragraph .18 of AU-C section 330?

OSA Response: The standard is clear that we should identify and assess risk for classes of transactions, disclosures etc. that may be material but not significant but the guidance is silent on how to treat these items? Both paragraphs A256-257 come down to “auditor judgement”. Also, “stand back” is unnecessary and makes no sense, this appears to be another professional skepticism enhancement.

11. What are your views with respect to the clarity and appropriateness of the documentation requirements?

OSA Response: OSA concurs, the guidance for the required documentation is appropriate.