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American Institute of Accountants. Committee on Auditing Procedure

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Statements on Auditing Procedure

No. 24

October 1948

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Issued by the
Committee on Auditing Procedure,
American Institute of Accountants,
13 East 41st Street, New York 17, N. Y.
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Revision in Short-Form Accountant's Report or Certificate

1. The special report of the committee on auditing procedure on "Auditing Standards—Their Generally Accepted Significance and Scope" was issued in October, 1947. The summarized statement of auditing standards appearing on page 11 of the special report was approved in a resolution adopted by the council of the American Institute of Accountants in May, 1948. In accordance with that resolution, the summary of auditing standards was submitted for approval to the members attending the annual meeting of the Institute in September, 1948, and was approved. The resolution adopted by the members present is appended to this statement.

2. The foregoing actions give an official status to the meaning of the term "generally accepted auditing standards" which has been used for several years in the accountant's short-form report or certificate. It is the view of the committee on auditing procedure that the clarification thus accomplished makes it possible to simplify and improve the first paragraph of the short-form of accountant's report or certificate.

3. The committee believes that the first paragraph of the short-form report or certificate should be amended in the following respects:

- (a) Exclude reference to the examination of the system of internal control.
- (b) Exclude reference to the omission of a detailed audit of the transactions.
- (c) Correct the inconsistent expression relating to auditing standards applicable in the circumstances.

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4. The committee believes that it is no longer necessary or desirable to mention the examination of the system of internal control inasmuch as one of the generally accepted auditing standards is stated to be:

“There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.”

5. The test character of examinations by independent accountants has been made clear in the special report on auditing standards and in other literature published during the past several years. Therefore, it is the view of the committee that the words “and accordingly included such tests of the accounting records” in the second sentence of the first paragraph of the report or certificate as revised, is sufficient declaration of the test nature of the examination.

6. The last of the foregoing amendments was covered by a recommendation of the committee in its special report on auditing standards. This suggested change has already been adopted by a majority of the accounting profession in the reports or certificates relating to the year 1947.

7. The recommended revised short-form of accountant’s report or certificate is presented below:

“We have examined the balance-sheet of X Company as of December 31, 19— and the related statement(s) of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

“In our opinion, the accompanying balance-sheet and statement(s) of income and surplus present fairly the financial position of X Company at December 31, 19—, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.”

APPENDIX

The following resolution was adopted by the members present at the annual meeting of the American Institute of Accountants in September, 1948:

WHEREAS the committee on auditing procedure of the American Institute of Accountants in a special report [*Tentative Statement of Auditing Standards*] issued in October, 1947, among other things has stated that

"While it is not practicable, because of the wide variance of conditions encountered, to issue anything like an 'all-purpose' program of auditing procedures it is possible to formulate a pronouncement with regard to the auditing standards requiring observance by the accountant in his judgment exercise as to procedures selected and the extent of the application of such procedures through selective testing." (Paragraph 6, page 7)

and that:

"Auditing standards may be said to be differentiated from auditing procedures in that the latter relate to acts to be performed, whereas the former deal with measures of the quality of the performance of those acts, and the objectives to be attained in the employment of the procedures undertaken. Auditing standards as thus distinct from auditing procedures concern themselves not only with the auditor's professional qualities but also with his judgment exercise in the conduct of his examination and in his reporting thereon." (Part of the first paragraph, page 9)

and has presented the following brief summary of the meaning of generally accepted auditing standards (page 11):

"General Standards

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

"Standards of Field Work

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

"Standards of Reporting

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.

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2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report."

NOW THEREFORE BE IT RESOLVED, That:

- (a) The foregoing excerpts from the committee's report are hereby approved and adopted,
- (b) The use of "generally accepted auditing standards" in the reports or certificates of independent auditors shall be deemed to refer to the standards or principles set forth in the foregoing summary, and
- (c) The references on pages 10 and 12 of *Extensions of Auditing Procedure* [Statement on Auditing Procedure No. 1] to the Institute's 1936 bulletin *Examination of Financial Statements* are no longer applicable.

* * *

The statement entitled "Revision in Short-Form Accountant's Report or Certificate" was adopted by the assenting votes of sixteen members of the committee. One member, Mr. Harrington, dissented.

Mr. Harrington opposes the issuance of the statement because he questions the desirability of excluding from the accountant's report reference to the omission of a complete check of transactions. Notwithstanding his agreement with the other members of the committee that auditing standards ordinarily do not require a complete check of transactions, Mr. Harrington believes that a statement in the auditor's report to the effect that a detailed audit was not made is of continuing value as educating readers to a better appreciation of the character of the accountant's examination.

COMMITTEE ON AUDITING PROCEDURE (1947-1948)

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