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Statements on Auditing Procedure

No. 26
April 1956

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Issued by the
Committee on Auditing Procedure,
American Institute of Accountants,
270 Madison Avenue, New York 16, N.Y.
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Reporting on Use of "Other Procedures"

1. In 1939 the membership of the Institute approved the extension of auditing procedures to require observation of inventories and confirmation of receivables where either of these assets represents a significant proportion of the current assets or of the total assets of a concern.

2. These procedures were thus established as an integral part of generally accepted auditing procedures. Failure to apply them, where they are practicable and reasonable, in general precludes expression of an opinion on the fairness of the financial statements taken as a whole.

3. *Codification of Statements on Auditing Procedure* states (third and fourth paragraphs on page 21):

"In all cases in which the extended procedures are not carried out with respect to inventories or receivables at the end of the period or year, and they are a material factor, the independent certified public accountant should disclose, in the general scope section of his report, whether short or long form, the omission of the procedures, regardless of whether or not they are practicable and reasonable and even though he may have satisfied himself by other methods.

"In the rare situation in which they are applicable and are not used and other procedures can be employed which will enable him to express an opinion, he should, if the inventories or receivables are material in amount, disclose the omission of the procedures in the general scope paragraph without any qualification in the opinion paragraph with respect to such omission. In deciding upon the 'other procedures' to be employed he must bear in mind that he has the burden of justifying the opinion expressed."

4. It has become increasingly evident in those instances where the accountant's report has disclosed omission of the extended procedures that, in the minds of a number of interested parties, including

important groups of credit grantors, uncertainty often exists as to whether or not the accountant did actually undertake other auditing procedures.

5. Accordingly, it is the view of the committee that, *in all cases* in which the extended procedures are not carried out with respect to inventories or receivables as at the end of the period or year¹ and they are a material factor, the independent certified public accountant should not only disclose, in the general scope section of his report, whether short or long form, the omission of the procedures, regardless of whether or not they are practicable and reasonable, but also should state that he has satisfied himself by means of other auditing procedures if he intends to express an unqualified opinion. The second sentence of the scope paragraph of the independent auditor's report will then read somewhat as follows:

"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; however, it was not practicable to confirm receivables (to observe the physical inventory taking), as to which we have satisfied ourselves by means of other auditing procedures."

In these circumstances, no exception would be required in the opinion section of the report.

6. *Codification of Statements on Auditing Procedure* points out that 'other procedures' can be satisfactorily employed only in *rare* situations in which the "extended procedures" are applicable and are not used. It is not the intention of the committee to withdraw in any way from its previous conclusion in this respect.

¹ Under appropriate circumstances, the procedures may be carried out at times other than at the end of the period or year.

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