Proposed statement on auditing standards: amendment to statement on auditing standards no. 69, The Meaning of "Present fairly in conformity with generally accepted accounting principles" in the independent auditor's report; Amendment to statement on auditing standards no. 69, The Meaning of "Present fairly in conformity with generally accepted accounting principles" in the independent auditor's report; Meaning of "Present fairly in conformity with generally accepted accounting principles" in the independent auditor's report.
EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

AMENDMENT TO

STATEMENT ON AUDITING STANDARDS NO. 69,
THE MEANING OF PRESENT FAIRLY IN CONFORMITY
WITH GENERALLY ACCEPTED ACCOUNTING
PRINCIPLES IN THE INDEPENDENT AUDITOR'S
REPORT

November 29, 1999

Prepared by the AICPA Auditing Standards Board for comment from
persons interested in auditing issues

Comments should be received by January 28, 2000, and addressed to
Jackie Walker, Audit and Attest Standards, File 2615, AICPA, 1211 Avenue
of the Americas, New York, NY 10036-8775 or via the Internet to jwalker@aicpa.org
November 29, 1999

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board (ASB), of a proposed Statement on Auditing Standards (SAS) titled Amendment to Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report.

The attached summary provides an explanation of why the ASB is issuing this exposure draft, what it does, and how it affects existing standards.

Comments or suggestions on any aspect of this exposure draft will be welcomed. To facilitate the ASB's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

In developing guidance, the ASB considers the relationship between the cost imposed and the benefits reasonably expected to be derived from audits. It also considers the differences the auditor may encounter in the audit of financial statements of small businesses and, when appropriate, makes special provisions to meet those needs. Thus, the ASB would particularly appreciate comments on those matters.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after January 28, 2000, for one year. Responses should be sent to Jackie Walker, Audit and Attest Standards, File 2615, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by January 28, 2000. Responses also may be sent by electronic mail via the Internet to jwalker@aicpa.org.

Sincerely,

Deborah D. Lambert
Chair
Auditing Standards Board

Thomas Ray
Director
Audit and Attest Standards

American Institute of Certified Public Accountants
1211 Avenue of the Americas, New York, NY 10036-8775 (212) 596-6200 fax (212) 596-6213
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SUMMARY

WHY ISSUED

The Federal Accounting Standards Advisory Board (FASAB) was organized in 1991 by the United States Department of the Treasury, the United States Office of Management and Budget, and the United States General Accounting Office to establish financial accounting and reporting standards for federal governmental entities. On October 19, 1999, AICPA Council adopted a resolution recognizing the FASAB as the body designated to establish generally accepted accounting principles (GAAP) for federal governmental entities under Rule 203, “Accounting Principles,” of the AICPA’s Code of Professional Conduct. Members may now express an opinion that the financial statements of a federal governmental entity are in conformity with GAAP if they are prepared in conformity with accounting principles promulgated by the FASAB. Pursuant to the resolution, Statements of Federal Financial Accounting Standards issued by the FASAB since March 1993 are recognized as GAAP for the applicable federal governmental entities.

AICPA Council’s action came after an evaluation of the FASAB structure and processes based on Council-approved criteria used to assess standards-setting bodies designated to establish accounting principles under rule 203. As resolved, the AICPA’s Board of Directors will, within five years of adoption of the resolution, review the mission and operations of the FASAB and evaluate whether the FASAB continues to meet the aforementioned Council-approved criteria for standards-setting bodies.

In response to the Council resolution, the AICPA Auditing Standards Board approved this exposure draft of a proposed Statement on Auditing Standards (SAS). The proposed SAS would amend SAS No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor’s Report (AICPA, Professional Standards, vol. 1, AU sec. 411) to reflect FASAB pronouncements in the GAAP hierarchy as sources of established accounting principles.

WHAT IT DOES

SAS No. 69 explains the meaning of the phrase “present fairly...in conformity with generally accepted accounting principles” in the independent auditor’s report. Specifically, SAS No. 69 defines sources of established accounting principles that are generally accepted in the United States. Four categories of such sources, commonly known as the GAAP hierarchy, are defined in the SAS. The proposed amendment to SAS No. 69 reflects FASAB pronouncements in the GAAP hierarchy as sources of established accounting principles, in effect defining a GAAP hierarchy for federal governmental entities.

HOW IT AFFECTS EXISTING STANDARDS

PROPOSED STATEMENT ON AUDITING STANDARDS


1. In October 1999, AICPA Council passed a resolution recognizing the Federal Accounting Standards Advisory Board as the body designated to establish generally accepted accounting principles (GAAP) for federal governmental entities under Rule 203, “Accounting Principles,” of the AICPA’s Code of Professional Conduct. This amendment adds the following two new paragraphs to Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor’s Report, to establish a hierarchy of accounting principles for federal governmental entities. New language is shown in boldface.

Application to Federal Governmental Entities

.14 For financial statements of federal governmental entities—

a. Category (a), officially established accounting principles, consists of Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations, as well as AICPA, FASB, and GASB pronouncements specifically made applicable to federal governmental entities by FASAB Statements or Interpretations. FASAB Statements and Interpretations will be periodically incorporated in a publication by the FASAB.9

b. Category (b) consists of FASAB Technical Bulletins and, if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.10

c. Category (c) consists of AICPA AcSEC Practice Bulletins if specifically made applicable to federal governmental entities and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

d. Category (d) includes implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

8 FASAB Concepts Statement No. 2, Entity and Display, defines federal governmental entities.

9 As of the date of this section, the FASAB was in the process of updating its current publication, which contains FASAB Statements 1–8. The FASAB expects to issue the updated publication in early 2000.

10 The auditor should assume that such pronouncements specifically made applicable to federal governmental entities have been cleared by the FASAB, unless the pronouncement indicates otherwise.
In the absence of a pronouncement covered by rule 203 [ET section 203.01] or another source of established accounting principles, the auditor of financial statements of a federal governmental entity may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in categories (a) through (d) of paragraphs .10 and .12 when not specifically made applicable to federal governmental entities by the FASAB; FASB and GASB Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASAB Concepts Statements would normally be more influential than other sources in this category.

This amendment also adds a third column titled "Federal Governmental Entities" to the "GAAP Hierarchy Summary" table in paragraph .16 of SAS No. 69 to reflect the hierarchy for federal governmental entities set forth in new paragraphs .14 and .15. The new column is as follows:

[under Established Accounting Principles]

.14a FASAB Statements and Interpretations plus AICPA, FASB, and GASB pronouncements if made applicable to federal governmental entities by a FASAB Statement or Interpretation

.14b FASAB Technical Bulletins and the following pronouncements if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position

.14c AICPA AcSEC Practice Bulletins if specifically made applicable to federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB

.14d Implementation guides published by the FASAB staff and practices that are
widely recognized and prevalent in the federal government

[under Other Accounting Literature]
.15 Other accounting literature, including FASAB Concepts Statements; pronouncements in categories (a) through (d) of the hierarchy for federal governmental entities when not specifically made applicable to federal governmental entities; FASB and GASB Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles

3. This Statement is effective upon issuance.