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1999

**Comment letters on Proposed Statement on Auditing Standards,
Amendments to Statement on Auditing Standards No. 61,
Communication with Audit Committees, and Statement on
Auditing Standards No. 71, Interim Financial Information.**

American Institute of Certified Public Accountants. Auditing Standards Board

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December 8, 1999

To the Auditing Standards Boards:

Enclosed are copies of the comment letters received to date on the Proposed Statement on Auditing Standards, *Amendments to Statement on Auditing Standards No. 61, Communication with Audit Committees, and Statement on Auditing Standards No. 71, Interim Financial Information.*

To aide in your review, a summary of the comment letters by topic is also enclosed.

Please call me at 212/596-6026 if you have any questions.

Sincerely,



Kim Gibson
Technical Manager
Audit and Attest Standards

Comment Letters
Proposed Statement on Auditing Standards,
Amendments to Statement on Auditing Standards No. 61, Communication with Audit Committees, and
Statement on Auditing Standards No. 71, Interim Financial Information

SAS No. 61, Communication with Audit Committees

Comment Letter	Comment
4,16,18,26	Support the proposed amendment to SAS No. 61
2,5,7,13,17,21,25,27	The requirement for the auditor to discuss the quality, not just the acceptability of the entity's accounting principles should be removed.
25	Terms such as "clarity", "neutrality" and "representational faithfulness" be deleted because they do not have a recognized objective meaning
3,15,23	<ul style="list-style-type: none"> • The exclusive use of the terms taken from Concepts No. 2 may lose the flavor of the intention of the Panel and the BRC. • The discussion of "conservatism" in paragraph 96 of Concepts No. 2 is useful in this regard • We believe this discussion of "conservatism" offers an opportunity to link the words in there commendations of the BRC and the 1994 Panel with the accounting literature. <p>We believe that these terms, (aggressiveness or conservatism) while not easily defined, are relatively easily understood in financial circles and can serve as a useful benchmark for audit committee members. We would not object to the inclusion of these concepts in the final standard.</p> <p>We recommend that the wording in the amendments to SAS 61 revert to the "aggressive or conservative", wording, recommended by the Blue Ribbon Committee.</p>
1,3,5,12,15,19,21,22,24,29	The requirement prohibiting the communication of the auditor's judgments in writing should be removed
29	The proposal does not distinguish quality from preferability. The ASB should ass a footnote explaining that quality

	does not carry the same meaning as preferability as the latter is used in APB No. 20.
3	The standard should clearly state that the auditor has a responsibility to communicate to the audit committee his/her qualitative assessments of the company's financial reporting whether or not management chooses to play an active role in the discussion.
11	Discussions with non-SEC clients concerning the auditor's judgements about the quality of the entity's accounting principles would also be beneficial.
12	The Exposure Draft assumes that management would be included as a participant. We do not believe that such assumption should be included in the language of the amendment.
29	Clarify that auditors are not precluded from having this discussion privately with the audit committee.
15,	We are concerned that the technical language used to describe the substance of the discussion (particularly the references to representational faithfulness, verifiability, neutrality and consistency) may not be understandable to many practitioners, and certainly not understandable to most audit committee members, who may look to this language to help them frame their discussion with their auditors.
20	Data in our study provide no evidence that discussions between the auditor and the audit committee about the quality and appropriateness of earnings will mitigate against aggressive reporting
23	We recommend the communication of the "quality, not just the acceptability, of the company's accounting principles" be integrated with the existing communication requirements regarding accounting policies and estimates rather than added as a new item in the list
23	The discussion contemplated by the amendments to SAS 61 would be appropriate as part of the annual communication with the audit committee of matters related to the conduct of the audit, but we do not believe it would be appropriate as part of a discussion resulting from a quarterly review.
29	A sentence should be added instructing the auditor to carefully review any minutes or other writings resulting from the meeting prepared by the audit committee or management to ensure that the writings are consistent with the auditors' understanding of what was communicated.
29	AU 380 requires discussion with audit committees concerning the selection of accounting policies, estimates and judgements. It is unclear whether the ASB had something different in mind by repeating these aspects of the required communication.
29	The proposal discussed the consistency of the entity's accounting information contained in the financial statements twice.

SAS No. 71, Interim Financial Information

Comment Letter	Comment
3,7,18	Supports proposed revisions
2,4,8,9,13	Time restrictive requirement. More restrictive for a review than is currently required with a GAAS audit. Time schedules and deadlines make this recommendation impractical to implement and could result in needless delays in the financial reporting process.
	Such discussions should not be required prior to the filing of Form 10-Q, or prior to public announcement of interim financial information
5,10,15,16,25,26,28	Discussions prior to public announcement should not be required.
11	He or she should <i>attempt</i> to make such communications with the audit committee...” Use of the word “attempt,” without providing guidance as to what would satisfy an “attempt”, appears to weaken this amendment and make determinations of compliance difficult.
12	The word “attempt” may place too much of a burden upon the auditor particularly when the timing of the release of the information may be affected. Accordingly, we suggest that the auditor’s role under these circumstances should be limited to an offer or indication of availability to make such communication
13,14,17	Such discussion should take place when matters of significance arise, but should not be required in the absence of such matters.
2	If an entity has an audit committee, the potential communication should apply, whether public or private company.
5	...there should be no implication that all publicly traded companies should be subject to quarterly reviews of interim financial statements, regardless of size, industry or state of development.
5,21,25	...deletion of the requirement to discuss the “quality” of accounting principles
20	Our study indicates that earlier auditor involvement in a client firm’s decisions about accounting methods likely will mitigate against aggressive financial reporting. Specifically, we find that experienced auditors are less likely to deem a client’s aggressive accounting method to be acceptable when the auditor is involved in management’s decision making

	before, rather than after, quarterly statements have been released to the public and filed with the SEC.
21	It is unclear whether the matters to be communicated pursuant to the revised paragraph 25 would include the "quality" of an entity's accounting principles as contemplated by the proposed revisions to SAS No. 61. Consequently, TIC recommends that this issue be clarified.
23	Amendments to SAS 71, as they relate to the importance of the timing of the discussion between the auditor and the audit committee, revert to the stated approach recommended by the Blue Ribbon Committee, that is that the matter be discussed "...prior to the filing of the Form 10-Q (and preferably prior to any public announcement of financial results)..."
24	Situations may arise wherein the audit committee may believe it unnecessary to have discussions with the accountant upon completion of the review. In those circumstances, we believe the accountant should cover those matters when making the communications specified by paragraph 6 through 16 of AU Section 380 (as amended) incidental to the annual audit. We recommend the addition to the proposed standard of guidance to that effect.
24	Clarification is needed with respect to the specific matters described in AU Section 380 that should be communicated to the audit committee arising out of a review of interim information. Certain of the matters discussed in AU Section 380, such as the auditors' responsibility under GAAS and difficulties encountered in performing the audit are not applicable to reviews of quarterly information. In addition, the accountant's responsibility for other information in documents containing interim information is addressed in AU Sections 722.33 and 550. Accordingly, we recommend that the proposed standard state that, to the extent applicable, the matters described in paragraphs 7 through 10, 13 and 14 of SAS No. 61 (as amended and renumbered by SAS No. 89 and Part 1 of this proposed standard) should be communicated to the audit committee as a result of the accountant having performed a review of interim financial information
24	Explicitly acknowledge, as AU Section 380 does, that the communication may be written or oral, and if oral, that the accountant document the matters discussed by memorandum or other notation in the working papers.
24	The proposed standard should be issued only after analysis of the additional effects on AU Section 722, if any, of the SEC's final requirements for timely review of interim financial information.
24	The effective date for this part of the proposed standard be for interim periods in fiscal years beginning on or after June 15, 2000. However, we would not object to permitting earlier application, including mid-year adoption during calendar year 2000.
25	we recommend that the proposed effectiveness of the new requirements be extended one year
29	Require this communication with the audit committees prior to the filing of the annual financial statements and prior to

the public release of the annual results.

December 9, 1999

File Ref. Nos. 1120
2280

To the Auditing Standards Board:

Here are the comment letters received to date on the proposed Statement on Auditing Standards, Amendments to *Statement on Auditing Standards No. 61, Communication with Audit Committees*, and *Statement on Auditing Standards No. 71, Interim Financial Information*.

<u>Name/Affiliation</u>	<u>Location</u>
1. Peter H. Burgher	Howell, MI
2. Greg Swalwell	Dallas, TX
3. Charles A. Bowsher, Chairman Public Oversight Board	Stamford, CT
4. Michael L. Conley McDonald's	Oak Brook, IL
5. Richard H. Troy Cell Pathways, Inc.	Horsham, PA
6. Kevin Wilson	Tivoli, NY
7. Mark Wovsaniker America Online Incorporated	Dulles, VA
8. Jay R. Lundborg First Midwest	Itasca, IL
9. Paul Jones American Home Products Corporation	Madison, NJ
10. Andy Bryant Intel Corporation	Santa Clara, CA
11. William G. Bishop III, CIA Institute of Internal Auditors	Altamonte Springs, FL

Name/Affiliation**Location**

- | | |
|--|--------------------|
| 12. Richard Rowe
American Bar Association | Chicago, IL |
| 13. Mr. R. L. Polark
Walgreens | Deerfield, IL |
| 14. Scott A. Scherff
The Timken Company | Canton, OH |
| 15. PriceWaterhouseCoopers LLP | Florham Park, NJ |
| 16. Donald D. Humphreys
Exxon Corporation | Irving, TX |
| 17. Steven E. Howarth
Black & Decker Corporation | Towson, MD |
| 18. Dr. Douglas E. Ziegenfuss
Virginia Society
of Certified Public Accountants | Virginia Beach, VA |
| 19. Lawrence P. Brown | Chicago, IL |
| 20. Kathryn Kadous
University of Washington | Seattle, WA |
| 21. Candace Wright
PCPS Technical Issues Committee | Baton Rouge, LA |
| 22. Vincent Love
New York State Society
of Certified Public Accountants | New York, NY |
| 23 Ernst & Young LLP | Cleveland, OH |
| 24 Deloitte & Touche LLP | Wilton, CT |
| 25. Guy Lander
New York State Bar Association | Albany, NY |
| 26. Donald E. Kiernan
SBC Communications Inc. | San Antonio, TX |

Name/Affiliation

Location

- | | |
|--|-------------------|
| 27. Joy L. Gibson, CPA
Florida Institute of
Certified Public Accountants | Tallahassee, FL |
| 28. M. R. Kitten
Chevron Corporation | San Francisco, CA |
| 29 Arthur Andersen | Chicago, IL |

OTHERS

Name/Affiliation

Location

- | | |
|--|------------|
| 1. Meritor Automotive, Inc.
Thomas Madden | Troy, MI |
| 2. Charles H. Harff
Meritor Automotive, Inc. | Troy, MI |
| 3. Richard E. Staedtler
Castle Energy Corporation | Radnor, PA |

If you have any questions, please call me at 212/596-6026.

Sincerely,



Kim Gibson
Technical Manager
Audit and Attest Standards

Enclosures

cc: Audit Committee Effectiveness Task Force

PETER H. BURGHER

2 Brambleberry Dr.
Howell, MI 48843
517 546-3799

November 3, 1999

AICPA
Audit and Attest Standards
Attn: Sherry Boothe
1211 Avenue of the Americas
New York, NY 10036

Gentlemen:

With reference to proposed amendments to SAS No. 71, Part 1 there must be a misprint or some other form of error in the sentence that states (within paragraph 11) "the auditors' judgements shall not be communicated in writing".

In our society written expression always takes precedence over oral expression, witness the severe limitations in the rules governing parol evidence. It would be sheer lunacy to require that auditors, whose communications should always be made with clarity and precision, to communicate solely by oral means. It is hard to imagine the levels of misunderstanding that could be achieved by lay audit committee members when confronted with easily forgotten and possibly imprecise discussions by highly technical experts attempting to explain broad intangibles and qualitative judgements.

I urge the committee to correct this error at its earliest possible convenience lest the entire financial community think the profession has, even temporarily, lost its collective mind. Written expression should be required with the license given that auditors are encouraged to amplify, interpret and explain their judgements in person by discussion and examples.

The subject matter of the proposed revisions is serious business and will be difficult to implement. While auditor's professional activities have always relied upon high levels of judgement based on education, training and experience, the explanation of

AICPA
Audit and Attest Standards
Page Two

such highly intangible concepts as judgements concerning "quality" of management's judgements as disclosed by accounting practices, theories and procedures will be difficult at best. It would be wise to ensure the communications by auditors are always clearly documented and that a record is maintained.

Please do not hesitate to contact me if you have any questions.

Sincerely,



Peter H. Burgher, CPA
AICPA No. 109670

phb:ed

COMMENT LETTER # 2

7915 Xavier Court
Dallas, Texas 75218-4513

November 9, 1999

VIA EMAIL – sbooth@aicpa.org

Sherry Boothe
AICPA Audit and Attest Standards
File 2280
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

I am writing to give my comments on the Proposed Statement on Auditing Standards *Amendments to Statement on Auditing Standards No. 61 and 71*.

SAS No. 61

I object to the proposed amendment to SAS No. 61 to require the auditor to discuss with the audit committee the auditor's judgment about the "quality" of an entity's accounting principles as applied in its financial reporting.

The Auditing Standards Board correctly acknowledges that no objective criteria have been established to aid in the consistent evaluation of the "quality" of an entity's accounting measurements and disclosures. Without such objective criteria, any such discussion would be highly subjective and potentially confusing and misleading. For example, there is no guidance as to how such a discussion of "quality" relates to the auditor's attestation with respect to the fair presentation of an entity's financial statements in accordance with GAAP. Does the Auditing Standards Board envision that the auditor will express an opinion to the audit committee that the entity's financial statements are presented more or less "fair" than other entities' financial statements by reference to a discussion of the undefined term "quality?" Is the Auditing Standards Board stating that there are acceptable differences in the degree of the "quality" of a set of GAAP financial statements, taken as a whole? Wouldn't shareholders and other users of GAAP financial statements have a right to know the auditor's views about these differences in degree of "quality?"

The Auditing Standards Board showed its reservations to the proposed requirement by prohibiting such communications to the audit committee from being in writing. If the Auditing Standards Board is so uncomfortable with its proposal so as to prohibit such communications to the audit committee from being in writing, then such communications should not be required in the first place.

I believe the proposed communication requirement should only be adopted after objective criteria are sufficiently established which will allow for consistency in the evaluation of "quality." Accordingly, because such criteria do not presently exist, I do not support the proposed amendment to SAS No. 61 at this time.

SAS No. 71

The proposed new section AU 722.26 is confusing with respect to the timing of the potential communication to the audit committee if the entity makes a public announcement of its interim financial information prior to making a filing with the regulatory agency (e.g. an entity issues a press release announcing its interim results before filing its Form 10-Q with the SEC). In that case, the proposed amendment states that the auditor should attempt to make such communication prior to the public announcement of the interim financial information. For that to occur, the auditor would have to complete their SAS 71 review prior to such public announcement, and therefore the proposed AU 722.26 could be construed to contain such a timing requirement. This may not always be practical from a timing standpoint.

The ASB correctly acknowledges that the Blue Ribbon Committee's proposal to require the auditor to complete a SAS 71 review of the interim financial statements prior to filing with the SEC is a matter to be taken up by the SEC. The requirements of when such a review should be performed should also be left up to the SEC.

AU 380.04 states that the required communication with the audit committee is incidental to the audit and is not required to occur before issuance of the auditor's report on the financial statements. AU 380.04 does state that there may be instances where such communication should occur prior to the issuance of the audit report, and those instances are left up to the auditor's judgment. I see no logical reason to require a more time-restrictive requirement for the timing of the communication to the audit committee following a non-audit, SAS 71 review, as is currently reflected in the proposed amendment to AU 722, than is currently required with a GAAS audit per AU 380.

Also, regardless of whether or not the SAS 71 review is performed on an entity making periodic filings with the SEC or other regulatory agency, the potential communication to the audit committee should be required. The required communications contained in AU 380 are applicable to SEC registrants and non-SEC registrants who have an audit committee or similar functioning body (AU 380.01). Therefore, I see no need for a different scope requirement in AU 722. If a review is performed, and the entity has an audit committee or similar body, the potential communication should occur.

Accordingly, I recommend that the proposed section AU 722.26 not be adopted, and that AU 722.25 be re-written in its entirety as follows:

"In performing the procedures in paragraphs .13 through .19, the accountant also should consider whether any of the matters described in AU 380, *Communications With Audit Committees*, as they relate to the interim financial information, have been identified. If such matters have been identified, the accountant should communicate them to the audit committee or be satisfied, through discussions with the audit committee, that such matters have been communicated with the audit committee by management. For instance, the accountant should determine that the audit committee is informed about the process used by management in formulating particularly sensitive accounting estimates or about a change in a significant accounting policy affecting the interim results. Such communication with the audit committee is incidental to the performance of the procedures in paragraphs .13 through .19. Accordingly, they are not required to occur before issuance of the accountant's review report, as discussed elsewhere in this section, so long as they occur on a timely basis. There may be occasions, however, where communication of certain matters with the audit committee prior to issuance of the accountant's review report may, in the accountant's judgment, be desirable.

Thank you for your consideration to my comments.

Sincerely,

/s/ Greg Swalwell

Greg Swalwell - AICPA Member # 1-01104439

#3



PUBLIC OVERSIGHT BOARD

One Station Place (203) 353-5300
Stamford, CT 06902 Fax (203) 353-5311

Proposed Statement on Auditing Standards

Amendments to

Statement on Auditing Standards No. 61,

Communication with Audit Committees,

and

Statement on Auditing Standards No. 71, Interim Financial Information

Comment Letter

BOARD

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ALAN H. FELDMAN

Assistant Technical Director

November 12, 1999

Ms. Sherry Boothe
American Institute of CPAs
Audit and Attest Standards
File 2280
1211 Avenue of the Americas
New York, New York 10036-8775
Attn: ITC 99-1

Dear Ms. Boothe:

We appreciate the opportunity to comment on the Proposed Statement on Auditing Standards, Amendments to Statement on Auditing Standards No. 61, Communication with Audit Committees ("SAS No. 61"), and Statement on Auditing Standards No. 71, Interim Financial Information ("SAS No. 71"), issued by the AICPA Auditing Standards Board on October 1, 1999.

The Board fully supports the proposed revision of SAS No. 71 concerning communications with audit committees relating to review of interim financial information. Therefore, the following comments relate to the proposed amendments to SAS No. 61.

As you know, the Public Oversight Board in March 1994 formed a special Panel to inquire into matters relating to auditor objectivity and independence. That Panel, which was chaired by our current Vice-Chairman, Donald J. Kirk, recommended a number of steps to enhance the integrity of financial reporting through strengthening the communication between a company's independent auditor and its board of directors and audit committee. These steps were fully embraced by our Board.

Included among the recommendations in the Panel's report, *Strengthening the Professionalism of the Independent Auditor*, which was issued in September 1994 was a recommendation to enhance auditor communication to audit committees of qualitative judgments about accounting principles, disclosures and estimates. The Panel encouraged auditors to timely communicate with boards and their audit committees about (1) the auditors' qualitative judgments about accounting principles used or proposed by management, not just whether or not those principles are acceptable, (2) the degree of aggressiveness or conservatism implied in the company's accounting principles and underlying estimates, and (3) the clarity of financial disclosures.



The Public Oversight Board is an independent, private sector body that monitors and reports on the self-regulatory programs and activities of the SEC Practice Section of the Division for CPA Firms of the American Institute of Certified Public Accountants.

The *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees* included among its ten recommendations that Panel recommendation. The BRC recommended that generally accepted auditing standards require such communication and that the requirement be written in a way “to encourage open, frank discussion and to avoid boilerplate.”

The Board fully endorses the BRC’s recommendation in that respect and the Auditing Standards Board’s efforts to establish a standard that will lead auditors to provide these qualitative and subjective communications to corporate boards and their audit committees in a meaningful fashion. We have significant reservations in three areas concerning the proposed revision of SAS No. 61:

1. The guidance is inadequate to achieve a meaningful communication about quality,
2. The workpaper documentation requirement is incomplete, and
3. The blanket prohibition of auditors communicating their qualitative judgments to audit committees in writing, while well-intentioned, may be unnecessary.

Qualitative Judgments to be Communicated

The POB recognizes the difficulty of writing a standard that will lend itself to consistent communications to audit committees about qualitative assessments of income and asset/liability measures and financial reporting disclosures that are inherently subjective in nature. The Auditing Standards Board (“ASB”), in response to a charge that it do so, chose to use terms in its guidance drawn from FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, —“representational faithfulness,” “verifiability,” “neutrality,” and “consistency”—rather than what the ASB describes as subjective determinations of “degrees of aggressiveness or conservatism.” The exclusive use of the terms taken from Concepts No. 2 may lose the flavor of the intention of the Panel and the BRC.

Earnings-management concerns rightfully focus on both ends of the spectrum in the application of acceptable reporting principles and practices. The ideal—high quality financial reporting—is the result of the application of those principles and practices by an unbiased preparer. Deviations from the ideal are what both the BRC and the POB’s Panel believe should be forthrightly and candidly brought to the attention of audit committees. Competent auditors can recognize deviations, whether caused by lack of knowledge or by purposeful bias.

We urge the ASB to keep the message for the audit committee clear and understandable. The discussion of “conservatism” in paragraph 96 of Concepts No. 2 is useful in this regard:

The Board emphasizes that any attempt to understate results consistently is likely to raise questions about the reliability and the integrity of information about those results and will probably be self-defeating in the long run. That kind of reporting, however well intentioned, is inconsistent with the desirable characteristics described in this Statement. On the other hand, the Board also emphasizes that imprudent reporting, such as may be reflected, for example, in overly optimistic estimates of realization, is certainly no less inconsistent with those characteristics. **Bias in estimating components of earnings, whether overly conservative or unconservative, usually influences the timing of earnings or losses rather than their aggregate amount. As a result, unjustified excesses in either direction may mislead one group of investors to the possible benefit or detriment of others.** (Emphasis added)

We believe this discussion of “conservatism” offers an opportunity to link the words in the recommendations of the BRC and the 1994 Panel with the accounting literature.

Aggressiveness can be defined as synonymous with unconservative for purposes of SAS No. 61. Our Board members who have considerable experience in serving on audit committees are confident that audit committee members will understand the message delivered by auditors if they identify practices that are bordering on or moving toward being overly conservative or overly aggressive. This “early warning” should enable an audit committee to better understand the quality of a company’s financial reporting. A communication couched solely or extensively in the terms selected from Concepts No. 2 (i.e., “representational faithfulness,” “verifiability,” “neutrality,” and “consistency”) is not likely to be an effective way to communicate with audit committees.

Michael R. Young, partner of Willkie Farr & Gallagher and editor of the manuscript entitled *Accounting Irregularities and Financial Fraud*, reaches a similar conclusion in the chapter he authored. In describing information that audit committees should obtain from outside auditors, Young would want the question asked: “Is management overly aggressive? Overly conservative?” In addition, he urges audit committees to discuss with the outside auditor the topic of managerial bias in the application of generally accepted accounting principles and to become satisfied that transactions and adjustments are “the natural consequence of business activity and not the manifestation of a desire to attain preestablished financial reporting targets.”

Documentation and Written Communication

The Board finds the last two sentences in paragraph 11 flawed. The last sentence states: “...the auditor needs only document in the working papers that the discussion had taken place, the date of the discussion, and the participants.”

The recommended working paper documentation needs to be expanded to include a description of the matters discussed and views expressed. We believe that the working paper documentation of those matters should have a positive behavioral impact on the auditor, namely, it should lead the auditor to have the intended candid discussion with the audit committee about all matters significant to an evaluation of the quality of financial reporting. Also without that change, the spirit of the revised standard will be impossible to peer review.

We agree with the reasoning expressed in the article co-authored by Art Siegel, then chairman of the SECPS Executive Committee, and Don Kirk in the *Journal of Accountancy*, January 1996, page 57: “In the event of litigation, the fact that some might believe that there are “better” practices will be apparent to plaintiffs from their own evaluations, and it should be helpful to the defense to have a record of thoughtful consideration of those alternatives before the financial statements were issued.”

The second to last sentence in paragraph 11 states, “...the auditor’s judgments should not be communicated in writing.” We recognize the purpose of this prohibition is to help achieve open, frank discussion and avoid boilerplate communications. However, the blanket prohibition is too restrictive. We can, for example, imagine circumstances where following the discussion an audit committee might want a memorandum from the auditor describing the matters discussed and the views expressed. In circumstances such as that, refusing to comply would serve no useful purpose.

In order to encourage open, frank discussion, avoid boilerplate and, at the same time, not prohibit all written communications, the standard might express a preference, such as: “In order to encourage open, frank discussion and avoid boilerplate reporting, it is preferable that

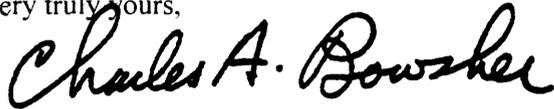
any written communication by the auditor expressing views on the quality of financial reporting follow discussion of those matters with the audit committee.”

Auditor Responsibility to Communicate

The summary of the proposed statement indicates that the effectiveness of the proposal is dependent on the willingness of all parties to engage in the discussion and act on the implications. The preamble to the proposal notes among other things that the proposed statement encourages a three-way discussion among the auditor, management, and the audit committee and that management should play an active part in the discussion. The Board urges that the standard should clearly state that the auditor has a responsibility to communicate to the audit committee his/her qualitative assessments of the company’s financial reporting whether or not management chooses to play an active role in the discussion.

We appreciate the efforts of the Auditing Standards Board to establish reasonable standards for auditor communications with audit committees. If you have questions concerning our comments, please do not hesitate to contact us.

Very truly yours,

A handwritten signature in black ink that reads "Charles A. Bowsher". The signature is written in a cursive, flowing style.

Charles A. Bowsher
Chairman

cc: Panel on Audit Effectiveness



#4

McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60523-1900
Direct Dial Number:

November 22, 1999

Ms. Sherry Boothe
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

File No. 2280

Dear Ms. Boothe:

McDonald's Corporation appreciates the role of the Auditing Standards Board in proposing amendments to SAS No. 61, *Communication with Audit Committees*, and SAS No. 71, *Interim Financial Information*, in response to the *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*.

We clearly support the overall goal of improving the effectiveness of audit committees. We support the Board's proposed amendment to SAS No. 61 requiring auditors to discuss with the audit committee the auditor's judgment about the quality, not just the acceptability of a company's accounting principles as applied in its financial statements. However, we disagree with the proposed amendment to SAS No. 71.

While we believe that open meaningful dialogue among management, the outside auditors and the audit committee is vital to an audit committee's effectiveness, we do not believe that the auditor should be required to attempt to communicate with a company's audit committee, or at least its chairman, every quarter prior to the release of interim financial information or prior to the company filing interim financial information with the SEC. Time schedules and deadlines make this recommendation impractical to implement and could result in needless delays in the financial reporting process.

As a more feasible alternative, we recommend that the necessity of such a discussion be left to the judgment of the company's financial management and its outside auditor depending upon individual circumstances (e.g., if there were significant judgments or adjustments impacting the results of the current quarter, such a discussion may be warranted). We believe that this approach would be more practical and more cost effective than a blanket rule requiring a fixed number of discussions each year. It would also help ensure that communications with audit committees are meaningful and useful to the company and its audit committee rather than merely being a statutory requirement. Since the outside auditor has unrestricted access to the audit committee, we believe that the combination of regularly scheduled meetings (that don't need to coincide with quarterly earnings releases) and additional discussions when circumstances dictate ensures that all appropriate communication is taking place on a timely basis.

We appreciate your consideration of our comments and would be happy to discuss this topic with you in further detail. If you have any questions or comments and would like to discuss them further, please call me at (630) 623-3250.

Sincerely,

Michael L. Conley
Executive Vice President
and Chief Financial Officer

702 Electronic Drive
Horsham, PA 19044 USA
Tel 215 • 706 • 3800
Fax 215 • 706 • 3801



Cell Pathways, Inc.

#5

November 22, 1999

American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Attention: Sherry Boothe
Audit and Attest Standards

Re: Proposed Amendments to Statement on Auditing Standards No. 61,
Communication With Audit Committees, and Statement on Auditing Standards
No. 71, *Interim Financial Information* (October 1, 1999)

File 2280

Ladies and Gentlemen:

Cell Pathways, Inc. is pleased to provide comments to the AICPA on its proposed amendments to SAS 61 and SAS 71 (the "Proposal" or "Proposals").

The comments of this letter may reflect the concerns of the hundreds of small publicly traded companies which do not have product sales or earnings and would not normally engage in auditor review of interim financial statements or discussions with audit committees at the time of interim financial statements.

This letter supports some of the proposals, but not all. In particular, we feel that there should be no implication that all publicly traded companies should be subject to quarterly reviews of interim financial statements, regardless of size, industry or state of development. On the contrary, such reviews should not be conducted where there is no purpose to be accomplished by the review. Many publicly traded companies lack sufficient economic substance to merit such reviews. Enclosed for your convenience is a copy of our comment letter to the Securities and Exchange Commission on their related proposals.

The Commenting Company

Cell Pathways was founded ten years ago to develop pharmaceutical agents to prevent cancer. It may be the only public company founded for this purpose. Its programs have since expanded to include cancer therapy, as well. It has no sales, no earnings. Some day we hope it will. It has about 60 employees. It formed an audit committee of outside directors about two years before becoming a public company. The development stage of the business does not merit either auditor review or audit committee review of earnings statements on a quarterly basis.



SAS 61 - Communication with Audit Committees.

This proposal would add a requirement that auditors *discuss* with the audit committee the following matters concerning the auditors' judgments about the quality (not just the acceptability) of the company's accounting principles:

- a. consistency of application of accounting policies
- b. clarity, consistency and completeness of the accounting information contained in the financial statements and related disclosures
- c. items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information included in the financial statements, including, for example:
 - i. selection of new or changes to accounting policies
 - ii. estimates, judgments and uncertainties
 - iii. unusual transactions
 - iv. accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded

The auditors would not be permitted to communicate the above matters *in writing* to the audit committee (documentation of the discussion would appear in the audit work papers).

We do not oppose additional specificity about items to be discussed by the auditors with the audit committee, provided that the items have a basis in established standards as recognized in current accounting literature. This would mean that it would be acceptable to add specificity with respect to: consistency of application of accounting policies; consistency and completeness of accounting information; and verifiability and consistency of accounting information with respect to such matters as selection of new (or changes to) accounting policies, estimates, judgments and uncertainties, unusual transactions, and accounting policies relating to significant financial statement items (including the timing of transactions and the period in which they are recorded).

We do feel, however, that AICPA should not include the *requirement* to discuss the "quality" (not just the acceptability) of the company's accounting principles. Auditors and audit committees may get into this area if they choose to; but it should not become mandatory. Generally Accepted Accounting Principles ("GAAP") is the historically recognized standard for Generally Accepted Auditing Standards and financial statement reporting. We should not introduce a foreign concept with no clearly and definitively established interpretation. The AICPA Proposal recognizes that there are no objective criteria for "quality." Because of the lack of criteria, the Proposal prohibits the auditor from communicating its judgments about "quality" in writing. In short, there no sound basis upon which to subject companies and their audit committees to a requirement to discuss a non-standard standard for financial statements, or to



possibly become liable under such non-standard standards, or to become liable for discussing such non-standard standards. If adopted, this part of the Proposal would expand the bases of potential litigation and liability, and, to a corresponding extent, discourage qualified individuals from becoming entangled in the activities of audit committees.

We recommend that the words “the auditor’s judgments about the quality, not just the acceptability, of” be deleted from proposed subsection .11 of SAS 61 (AU sec. 380.11).

Also, we are concerned about the meaning of the term “representational faithfulness” and we suggest that it be deleted unless univocal clarity of meaning can be established.

In the same vein, the words “clarity” and “neutrality” seem neither clear nor neutral; they lack established meaning which can be determined by objective criteria; they should be omitted.

If the above amendment is accomplished, then the last three sentences of proposed subsection .11, dealing with the lack of objective criteria and the prohibition on written communications would not be required.

Importantly, the text should make clear that these procedures apply only: (a) to such interim reviews as are actually conducted, and (b) to the extent that the company has and utilizes an audit committee. These procedures should not be misconstrued as *requiring* that there be interim reviews of quarterly financial statements (which would be beyond the purview of AICPA and of statements of either accounting or auditing principle), or that companies either have or use audit committees (which also would be beyond the purview of AICPA and statements of either accounting or auditing principle). Where interim reviews are, in fact, conducted, but a company does not have an audit committee, the proposal should make provision for discussion with the board of directors or other senior body of the company.

Finally, the proposal should make it clear that the discussion with the audit committee (or other senior body of the company) should be *preceded* by similar discussion with those in the company responsible for accounting, internal audit and other aspects of the financial control apparatus of the company.

SAS 71 - Interim Financial Information.

The Proposal would amend SAS 71 to require the auditors to have the SAS 61 discussions (presently required only for annual audits) in connection with a review of interim financials. In particular, the auditor would have to communicate to the audit committee, or be satisfied through discussions with the audit committee that management communicated to the committee, matters described in SAS 61 that have been identified in the conduct of the interim financial review.

We think it is a good idea that there be a discussion of SAS 61 information that has been identified related to interim financial statements, but only if the content and extent of the SAS 61



information does not go beyond the current Proposal as changed as discussed above, including deletion of the requirement to discuss the “quality” of accounting principles.

For those companies whose auditors do not currently conduct SAS 61-type reviews with respect to interim financial statements, the requirement would add additional cost and delays in release of interim financial statements. Thus, as discussed above, care should be taken to avoid any implication that interim reviews of quarterly financial statements are mandatory.

A further aspect of the Proposal is that, where an interim review is performed, the auditors would be required to attempt to discuss the SAS 61 matters with the audit committee or at least the committee chairperson, and a representative of financial management, prior to the filing of the Form 10-Q and, if possible, prior to a public announcement of interim financial results. We are not in disagreement with the principles that, *where an interim review is, in fact, performed*, the independent auditor have timely access to the audit committee, or at least the chair of the committee, and company financial management to discuss SAS 61 matters identified with respect to interim financial statements *prior to filing the Form 10-Q*. We have deep reservations, however, with the proposed amendment to SAS 71, particularly as it applies to public *announcements* of interim results.

While it is preferable to have the audit committee discussions, *if they are to occur*, prior to release of earnings, it may not be practicable to achieve this. We are informed that many companies have not actually completed their financial statements by the time they announce earnings. The physically disparate location of audit committee members poses another practical problem. *Retroactive* discussion loses much of its purpose and creates the dilemma of whether to create a record of second-guessing the already-released earnings.

Hence, where interim reviews *are* undertaken, the matter of discussions prior to public announcement should be modified to be a recommended best practice. SAS 61 should make clear: that companies are not required to delay the timing of their earnings releases; and that companies are not required to take on additional burdens in order to have the discussion with the audit committee (or member) prior to the release of earnings.

Again, as above, the text should make clear that the proposed procedures as to auditor discussion with the audit committee apply only: (a) to such interim reviews as are actually conducted, and (b) to the extent that the company has and utilizes an audit committee. These procedures should not be misconstrued as *requiring* that there be interim reviews of quarterly financial statements (which would be beyond the purview of AICPA and of statements of either accounting or auditing principal), or that companies either have or use audit committees (which also would be beyond the purview of AICPA and or statements of either accounting or auditing principle). Where interim reviews are conducted but a company does not have an audit committee, the proposal should make provision for discussion with the board of directors or other senior body of the company.



We appreciate this opportunity to comment on the Proposals and would be pleased to answer any questions you may have. You may reach me at 215-706-3840.

Sincerely,

Richard H. Troy
Senior Vice President, Corporate Development

AICPA
Sherry Booth
File # 2280.

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November 23, 1999

Audit and Attest Standards

Thank you for the exposure Draft for proposed Amendments to SAS no. 61, Communicating with Audit Committees, and SAS no. 71, Interim Financial Information. It is interesting that a Blue Ribbon Committee was formed to improve audit Committee performance. For part 1, page 7 using quality, not just acceptability, and discussing Clarity of the companies disclosures and degree of aggressiveness or conservatism would thoroughly complete a financial audit. It is more informative when an Audit Committee submits a letter to the SEC discussing conversations outside auditors have with the Audit Committee regarding quality of accounting principles and quality of judgments affecting the financial statements. Discussions about consistency, Clarity, and completeness is important. A three way discussion is more likely to result in a complete investigation of the company's financial picture. Prohibiting auditors in the written form and encouraging discussions is good; however, very important items should be documented. Perhaps participants should take notes that the discussion covered certain topics.

For part 2, Interim Financial Information: I agree that the SEC requires ^{that} a reporting company's outside auditor conduct a SAS 71, Interim Financial Information, prior to filing Form 10-Q. Your proposal will ensure more effective and accurate audits are performed. No comments are only good if there are none to reply. Your time is important.

- continued -

PPM, EC, James

Thank you for the prospectus with AIC 445 publication
and software. On page 9 you adequately described
the difference between an audit and review. The
review consists of inquiries and analytical procedures.
Your amendments would improve the auditing profession.

Sincerely,
Kevin Wilson
26 Pine Street
Lower New York
10586

P.S. page 8 adequately includes all items to be in-
cluded in discussions between the auditor, audit com-
mittee, or chairman, or representative of management
including significant estimates, management
judgments, related party relationships, significant
accounting policies, and significant risks
management.



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November 23, 1999

Sherry Boothe
Audit and Attest Standards
File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft – Proposed Amendments to SAS No. 61 and SAS No.71

Dear Ms. Boothe:

We support the AICPA Auditing Standards Board's effort to propose rule changes amending SAS No. 61, Communication with Audit Committees, and SAS No. 71, Interim Financial Information. We understand that these changes are in response to the recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. However, we respectfully offer the following views regarding each of the proposals.

Proposed Amendment to SAS No. 71, Interim Financial Information

We support this proposal to require the auditors to communicate to the audit committee or be satisfied, through discussions with the audit committee, that matters described in SAS No. 61 have been communicated to the audit committee by the management of the company when such matters have been identified in the conduct of interim financial reporting and prior to a public announcement of interim information, or as soon as practicable thereafter.

Proposed Amendment to SAS No. 61, Communication with Audit Committees

We do not support the proposal to require the auditor to discuss certain information relating to the auditor's judgments about the quality, not just the acceptability, of the company's accounting principles with the audit committees of SEC clients. It appears to us that either the financial statements are or are not in conformity with GAAP. Accordingly, the discussion regarding the quality of the company's accounting principles would not provide any additional benefits. Any discussions on the thinking behind choices from allowable alternatives, particular company or industry considerations, clarity of presentation, and other judgmental issues should be handled in the normal dialogue that occurs between management, the auditors and the audit committee, which is currently required by SAS No. 61.

We appreciate this opportunity to comment on the AICPA Auditing Standards Board's proposed amendments to SAS No. 61 and SAS No.71. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Mark Wovsaniker
Vice President, Accounting Policy



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First Midwest Bancorp, Inc.
300 Park Blvd., Suite 405
P.O. Box 459
Itasca, Illinois 60143-9768
(630) 875-7450

November 24, 1999

Auditing Standards
American Institute of Certified Public Accountants
Harborside Financial Center
201 Plaza Three
Jersey City, New Jersey 07311-3881

RE: Proposed Amendments to SAS No. 61 and SAS No. 71

Gentlemen:

The Auditing Standards Board of the American Institute of Certified Public Accountants has proposed amendments to Statement on Auditing Standards ("SAS") No. 61, *Communications with Audit Committees*, and SAS No. 71, *Interim Financial Information*. The proposed amendments are based on recommendations made earlier this year by the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees.

Proposed amendments to SAS No. 71 would require discussions between independent auditors and the audit committee of matters described in SAS No. 61. First Midwest Bancorp, Inc. ("First Midwest") and the Audit Committee of the Board of Directors of First Midwest (the "Audit Committee") believe, that such discussions should *not* be required prior to the filing of Form 10-Q, or prior to public announcement of interim financial information.

This requirement, if adopted, would impose additional and unnecessary burdens on audit committees, would result in additional costs to First Midwest, and expose audit committee members to greater risk of personal liability. We do not believe that having discussions with audit committees prior to the filing of Form 10-Q will result in more reliable or credible interim financial statements - particularly where the required quarterly reviews under SAS No. 61 reveal no significant adjustments, changes in estimates, significant new accounting policies or disagreements with management. While First Midwest opposes the adoption of specific rules regarding the timing of discussion between audit committees and the independent auditors, any such requirement should be limited to situations where the attention of the audit committee is warranted. To require such discussion in other situations is cost ineffective and counterproductive.

Questions regarding these comments may be directed to the undersigned at (630) 875-7458.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Jay R. Lundborg".

Jay R. Lundborg
Senior Vice President and
Audit Services Director

JRL/ali



#9

AMERICAN HOME PRODUCTS CORPORATION

FIVE GIRALDA FARMS, MADISON, NEW JERSEY 07940 (973) 660-5010, FAX (973) 660-7277

November 29, 1999

PAUL J. JONES
VICE PRESIDENT - COMPTROLLER

Mr. Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D.C. 20549

Subject: SEC PROPOSALS REGARDING AUDIT COMMITTEE DISCLOSURE

Dear Mr. Katz:

In response to the Securities and Exchange Commission's ("SEC") release proposing new requirements for corporate audit committees (the "Proposal"), enclosed are our comments for your review and consideration. For the sake of clarity, we have included a brief outline of the proposals along with our comments.

Pre-Filing Review of Quarterly Financial Statements

The Proposal would require that a company's independent auditors perform a SAS No. 71 "Interim Financial Information" review of the financial information included in the company's Quarterly Reports on Form 10-Q prior to the company filing such forms with the SEC.

Procedures for a SAS No. 71 review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. Accordingly, while such reviews could be performed without a significant increase in costs, we do not believe they would have a significant impact on the reliability of interim financial statements, the extent of year-end audit procedures, or result in fewer restatements of interim financial statements. Further, we believe that the Blue Ribbon Committee ("BRC") recommendation to amend SAS No. 71 to require that the audit committee discuss with the auditors certain matters including significant adjustments, management judgments and accounting estimates, significant new accounting policies, and disagreements with management prior to the filing of the Form 10-Q is even less desirable. Thus, we continue to oppose this recommendation via copy of this letter to the Auditing Standards Board of the

AICPA. The preparation and presentation of the annual and interim financial information is a management responsibility and does not belong with the audit committee. The involvement and review by the audit committee or its chairperson would be impractical prior to the filing of each quarterly report on Form 10-Q. Moreover, it would not be unreasonable to anticipate that the audit committee responsibilities with respect to the reports on Form 10-Q may eventually lead to audit committee involvement prior to the public release of quarterly financial results, thus imposing even greater burdens on these outside directors. Accordingly, we feel that the responsibilities and time involved in these tasks may discourage qualified individuals from participating on audit committees.

The Audit Committee Report

The Proposal would require that the audit committee provide a report in the company's proxy statement disclosing whether or not the audit committee has reviewed and discussed the audited financial statements with management, discussed certain matters with the independent auditors and received certain disclosures from the independent auditors, and discussed the auditors' independence with the auditors.

The Proposal would require the audit committee to also state in its report whether, based on the review and discussions described above, anything came to the attention of the members of the audit committee that caused the audit committee to believe that the audited financial statements included in the company's annual report contained an untrue statement of material fact or omitted to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading. The disclosure would appear over the names of the audit committee members.

We do not believe that this requirement will provide any meaningful benefit from a shareholder's point of view, nor do we believe that it would reinforce the audit committee's awareness and acceptance of its responsibilities. In our opinion, the existence of an audit committee implicitly confirms that discussions with management and the auditors should be occurring without the need for written disclosure. The audit committee has responsibility for selecting an external auditor but it remains the external auditor's role to perform the audit and to report on the annual financial statements of the company. As stated in the Proposal, existing SEC rules require the current annual report to shareholders to include a Report of Independent Public Accountants and for the Annual Report on Form 10-K to be executed by a majority of the members of the board of directors. Therefore, we believe there would be no benefit to including an additional representation from the audit committee or by having their names appear under such a disclosure.

Audit Committee Charters

The Proposal would require companies to disclose in their proxy statements whether or not the audit committee is governed by a charter. In addition, if the audit committee has a charter, a copy of the charter would have to be included as an appendix to the proxy statement at least once every three years. The Proposal would not require companies to adopt audit committee charters, or dictate the content of the charter if one is adopted.

Additionally, any statements about whether the audit committee has complied with the charter are not required.

Although we consider the maintenance of an effective comprehensive audit committee charter to be a prudent business practice, we believe that including the charter in the proxy statement to shareholders every three years is unnecessary. We suggest that the charter be included as an exhibit to the Annual Report on Form 10-K and that any significant changes be disclosed in the proxy statement. The concern expressed in the Proposal regarding the risk of broadly worded and vague committee charters to minimize committee members' exposure is, in our view valid, and can only be mitigated if the NYSE or SEC were to provide specific guidance as to the form and content of a charter.

Disclosure Regarding the Independence of Audit Committee Members

The Proposal would require companies to disclose in their proxy statements certain information regarding any member of the audit committee who is not independent.

We agree with the SEC's position on the importance of having an audit committee that is comprised of independent directors, and believe that shareholders should be informed when an audit committee director is not independent. Accordingly, we concur with the proxy disclosure requirements, that upon the appointment of a non-independent director to the audit committee, the nature of the relationship that makes that individual not independent and the reasons for the board's determination should be disclosed.

Proposed Safe Harbors

The Proposal proposes to establish "safe harbors" pertaining to the information required to be disclosed under the proposals in an effort to protect companies and their directors from certain liabilities under the federal securities laws.

We agree with the proposal to adopt liability "safe harbors" to cover the new disclosure requirements.

If you would like to discuss any of the above comments, please feel free to call me at (973) 660-5010.

Very truly yours,



cc: John R. Stafford
Robert G. Blount
Louis L. Hoynes, Jr.
Auditing Standards Board

COMMENT LETTER #10

Intel Corporation



November 22, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Amendments to SAS No. 61 *Communication with Audit Committee* and SAS No. 71, *Interim Financial Information*

Dear Ms. Boothe:

Intel welcomes this opportunity to comment on the subject proposed amendments. We support the clarifying guidance for content of discussions with the Audit Committee in SAS No. 61. However we consider the proposal for accountant and audit committee communication prior to a company's public announcement of interim financial information in SAS 71 to be unrealistic. This communication will delay the release of our financial results without adding any commensurate value. The earnings release process at Intel involves numerous groups and the document goes through many draft stages. The involvement of the audit committee would neither improve the process nor establish useful oversight or control. Thus it is more likely that such communication will transpire as soon as practicable after the public announcement.

Sincerely,

Andy Bryant

Senior Vice President
Chief Financial Officer

COMMENT LETTER #11

November 24, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

The Institute of Internal Auditors (IIA) appreciates the opportunity to submit our comments to the AICPA Auditing Standards Board's (ASB) proposed amendments to Statements on Auditing Standards (SAS) No. 61, *Communication With Audit Committees*, and SAS No. 71, *Interim Financial Information*. The IIA is very supportive of the efforts the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC).

Although the ASB has chosen to limit application of the amendment of SAS No. 61 to SEC clients, The IIA believes that discussions with non-SEC clients concerning the auditor's judgements about the quality of the entity's accounting principles would also be beneficial. Our concern is that non-public companies may also have significant stakeholders whose interests are not protected by this limitation. These stakeholders could include pension and other retirement plan participants, private investors, lenders, and others who rely on audited financial statements.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) recently published the study, *Fraudulent Financial Reporting: 1987-1997 An Analysis of U.S. Public Companies* (COSO Report). The COSO Report findings revealed that companies committing fraud generally were small, and in most cases were not listed on the New York or American Stock Exchanges. The COSO Report also found that audit committees and boards of these companies were weak and rarely met. Some would argue based on these findings that one could also conclude that non-public companies could be more susceptible to fraud due to the lack of best practice reporting requirements such as those imposed by the SEC and ASB. Although additional best practice requirements are needed for such companies, application of the amendment of SAS No. 61 to all clients would be a step in the right direction that COSO's "tone-at-the-top" philosophy supports.

We also suggest that the auditor document not only that the discussion has taken place, date of the discussion, and the participants, but also the specific topics or items discussed. While an auditor's judgement may be prone to subjective evaluations in the absence of objective criteria, a listing of the specific topics discussed will facilitate future discussions and work related to the items discussed. Such a list can be compiled without documenting the auditor's judgements.

In the amendment to SAS No. 71, paragraph .26, states "...he or she should *attempt* to make such communications with the audit committee..." Use of the word "attempt," without providing guidance as to what would satisfy an "attempt", appears to weaken this amendment and make determinations of compliance difficult. We suggest changing the amendment to read "... he or she should ensure that such communications with the audit committee..." Further, we would add a sentence that reads "If the auditor is unable to ensure that such communications occur prior to filing and/or public release of interim financial information, the auditor should document their attempts to communicate with the client."

Established in 1941, The Institute of Internal Auditors is an international professional organization with world headquarters in Altamonte Springs, Florida. The IIA has over 70,000 members in internal auditing, governance, internal control, IT audit, education, and security. With representation from more than 100 countries, The Institute is the acknowledged leader in standards, certification, education, research, and technological guidance for the profession worldwide.

Thank you again for allowing The IIA to provide our comments. If The IIA can provide further assistance, please feel free to call me.

Sincerely,

William G. Bishop III, CIA



#12



ASSOCIATION YEAR 1999-2000

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November 30, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft, Proposed Statement of Auditing Standards,
Amendments to Statements on Auditing Standards ("SAS") #61 and #71

Dear Ms. Boothe:

The Committee on Law and Accounting of the Section of Business Law of the American Bar Association (the "Committee") appreciates the opportunity to comment on the Exposure Draft described above relating to communications by auditors with audit committees. This comment letter has been prepared by certain members of the Committee; and a draft of this letter was circulated for comment among select members of the Committee. All persons generally agreed with the substance of this draft. However, our letter does not represent the official views of the Association, the Section or any of their committees or subcommittees.

The Committee believes that the improvement of the effectiveness of audit committees will have a significant beneficial impact upon financial reporting. Appropriate and timely communication between an auditor and the audit committee will contribute substantially to the effectiveness of audit committees. Accordingly, the Committee believes that the proposed amendments to SAS #61 and #71 are positive pronouncements generally, subject however, to the Committee's following comments and suggestions:

As to SAS #61. We are in agreement with the Exposure Draft insofar as it requires an auditor of Securities and Exchange Commission clients to discuss with the audit committee judgments about the quality, and not just the acceptability, of the company's accounting principles and underlying estimates in its financial statements in accordance with the definitions set forth in FASB Concepts Statement #2. While there are valid positions pro and con on the issue of written communication by the auditor concerning the discussion and in what detail to communicate, on balance, we do not believe that the auditor should be precluded from communicating his or her judgments to the audit committee in writing.

Ms. Sherry Boothe
November 30, 1999
Page 2

Whether or not the auditor memorializes the discussion with a written communication as well as the details thereof and whether such a communication would stifle an open and frank discussion with the audit committee should remain a judgment call by the auditor, possibly in consultation with the audit committee. Indeed it is not unusual for the audit committee itself to make appropriate notes or memoranda concerning the discussion. Nor should the auditor be limited in documenting the discussion in the auditor's working papers. Accordingly, it is difficult to understand how the interests of either the audit committee or the auditor are served by a blanket rule barring communicating by the latter to the former.

While the Blue Ribbon Committee's recommendations did not contemplate management's participation in the discussions between the auditor and the audit committee, it is to be noted that the Exposure Draft assumes that management would be included as a participant. We do not believe that such assumption should be included in the language of the amendment. Again the choice of a two-way meeting or a three-way meeting or in some cases two meetings, one between the auditors and the audit committee and the other with the participation of management, should be based entirely on the facts and circumstances involved and the judgment of the auditor and the audit committee.

As to SAS #71. The Exposure Draft provides that if the entity intends to release interim financial information in a public announcement prior to the filing of the interim financial information with a regulatory agency (such as the SEC) the auditor should attempt to communicate any identified matters described in AU380 to the audit committee, or at least its chairman. We believe that the word "attempt" may place too much of a burden upon the auditor particularly when the timing of the release of the information may be affected. Accordingly, we suggest that the auditor's role under these circumstances should be limited to an offer or indication of availability to make such communication.

We appreciate this opportunity to comment on the Exposure Draft and should you have any further questions, please contact Richard Rowe at (202) 416-6800 or Abraham Stanger at (212) 218-5500.

Respectfully submitted,



Richard Rowe
Chairman of the Committee on Law and Accounting



Abraham M. Stanger
Chairman of the Drafting Group



#13

Roger L. Polark
Senior Vice President
and Chief Financial Officer

November 26, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Boothe:

After careful review of the AICPA's October 1 Exposure Draft, Proposed Statement on Auditing Standards, Amendments to Statement on Auditing Standards No. 61 *Communication with Audit Committees* (SAS No. 61) and Statement on Auditing Standards No. 71 *Interim Financial Information* (SAS No. 71), we at Walgreen Co. wish to express concern regarding certain of those recommendations. We previously expressed related concerns in a July 1, 1999 letter to the New York Stock Exchange and in a November 24, 1999 letter to the U.S. Securities and Exchange Commission.

We agree that there is a need for active, independent audit committees that provide oversight and monitoring of the financial reporting process. Thus, we support the AICPA's efforts to improve the quality of corporate financial reporting. However, we continue to have strong reservations about certain of the recommendations that have been included in the AICPA's proposed rules. In our view, the proposed rules may decrease the responsibilities of outside auditors and transfer some of their long-held responsibilities to boards of directors and audit committees. This, in turn, creates new liabilities that may be pursued by increasingly litigious shareholder groups and their attorneys.

We believe that the Walgreen Co. audit committee adheres to the underlying principles espoused in the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees' report. We also believe that our audit committee acts in concert with the full board, company financial management, our internal auditors and our external auditors to support full disclosure, transparency and accountability. However, for the reasons stated, we take exception to the following items:

The Committee's recommendation 8, while rightfully encouraging an open, frank discussion of accounting practices, adds a requirement for audit committee members to become knowledgeable of the "quality" of the company's accounting principles. In our letter to the New York Stock Exchange we expressed concern that this requirement transfers a responsibility traditionally placed on outside auditors and presumes that committee members could fully appreciate the many nuances which may affect each decision made by company financial management. We acknowledge AICPA's attempt to address certain subjective matters in Recommendation 8 by eliminating terminology such as "degree of aggressiveness or conservatism" in its proposed amendment to SAS No. 61. We continue to believe, however, that because the term "quality" is undefined, any application will be so subjective as to be meaningless. Outside auditors are and should be responsible for reporting whether a company is adhering to Generally Accepted Accounting Principles.



In our letter to the New York Stock Exchange, we expressed concern that the Committee's recommendation 10 creates an unnecessary requirement for a quarterly discussion between the outside auditor and one or more audit committee members, which may delay the timeliness of reporting. We acknowledge that the AIPCA, in its proposed amendment to SAS No. 71, attempts to respond to this concern by modifying the requirement so that the outside auditor does not have to make communication of SAS No. 61 matters directly to the audit committee, but rather can satisfy him or her self that management has made such communication via discussion with the audit committee. This modification does not eliminate mandatory quarterly communication between the outside auditor and the audit committee. Furthermore, the proposed amendment to SAS No. 71 still requires that the outside auditor attempt to discuss SAS No. 61 matters with the audit committee prior to the filing of interim information with a regulatory agency, as well as prior to a public announcement of such interim information. We continue to believe that such discussion should take place when matters of significance arise, but should not be required in the absence of such matters.

We remain supportive of ongoing efforts to ensure adequate oversight and monitoring of financial statement preparation, and we appreciate your review and consideration of the foregoing comments.

Sincerely,

Mr. R. L. Polark
Chief Financial Officer

7714
TIMKEN

Scott A. Scherff
Corporate Secretary

WORLDWIDE LEADER IN BEARINGS AND STEEL

November 24, 1999

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: File No. S7-22-99

Dear Mr. Katz:

The Timken Company offers the following comments in connection with new rules proposed by the SEC intended to improve disclosure related to the functioning of corporate audit committees and to enhance the reliability and credibility of financial statements of public companies.

We believe the most significant issue raised by the proposed rule changes is the shifting of the responsibility for the accuracy of the company's financial statements from management and the inside and outside auditors to the audit committee, and the resultant risk of increased liability to members of the audit committee. These increased risks are not offset by any significant advantages to the financial reporting process because the audit committee's responsibility is to oversee this process, the adequacy of which is the primary responsibility of management and the auditors.

While the Commission did not adopt the Blue Ribbon Committee's recommendation that the audit committee certify that the company's financial statements are fairly presented in conformity with GAAP in all material respects, it does require that the audit committee disclose any material misstatements or omissions that come to its attention as a result of the review and discussions with management and the inside and outside auditors. In order to avoid the increased liability exposure discussed below, the result of these added requirements may be to cause the audit committee to micro-manage the audit process or second-guess the decisions made by management and the auditors in preparing the financial statements.

No amount of accounting or financial expertise will compensate for the fact that the accounting rules are ambiguous and complex. Inside and outside auditors are experts at analyzing and applying these rules, and yet problems occur. The primary function of the audit committee is and should remain oversight, not management, of the financial reporting process.



THE TIMKEN COMPANY

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In addition, the increased responsibilities of the audit committee resulting from adoption of these rules will significantly increase the time commitment of the members of the audit committee. In conjunction with the potential for increased liability, these rules may discourage the recruitment and/or retention of qualified directors for appointment to the audit committee. Ironically, this may result in a decrease in the quality of oversight by audit committees.

The Commission has stated that it does not intend, by its proposed rules, to create new standards for directors to fulfill their duties under state corporation law. In addition, the Commission does not believe that its proposed rule changes will result in increased exposure to liability for members of the audit committee. Indeed, the Commission believes that increased involvement by the audit committee would decrease liability exposure under state corporation law because the more informed the audit committee members become through its discussions with management and the auditors, the more likely the business judgment rule will apply and provide protection for the audit committee's activities.

The flaw in this reasoning is that the Commission's proposed rules are disclosure requirements. The liability exposure is two-fold. First, if the audit committee has discussions with management and the outside auditors and fails to notice any material misstatements or omissions, and problems subsequently arise related to the company's financial statements, such failure would lead the plaintiff's bar to question the adequacy of those discussions. Second, if the audit committee chooses not to have discussions with the outside auditors and management, and problems subsequently arise, the plaintiff's bar will argue the committee failed to perform its duties by not conducting such discussions. In effect, these disclosure rules will likely cause substantive changes in how the audit committee operates.

We believe the appropriate role of the audit committee in connection with the financial reporting process is oversight of management and the internal and external auditors. It is inappropriate and, in fact, counterproductive to require the audit committee to make representations about the accuracy of the company's financial statements.

We are also concerned about one of the requirements imposed by the New York Stock Exchange in connection with the charter of the audit committee. A copy of such charter would be required to be included as a part of a company's proxy statement every three years under the SEC proposal. This requirement directs the audit committee to recommend "that the Board of Directors take appropriate action to *ensure* (emphasis added) the independence of the outside auditor." While it is certainly appropriate for the audit committee to receive periodic reports from the outside auditors regarding relationships outside the audit function and to engage in a dialogue with respect to such relationships, as is also required by the NYSE as part of the charter, it is very difficult to "ensure" independence. As a result of such a dialogue, the committee may be in a position to make certain recommendations to the Board regarding the outside auditors, but such recommendations would not necessarily result in any assurance that the auditors will be independent. To place such a burden on the audit committee is unreasonable, and could raise liability concerns if a problem were to surface that is somehow related to the independence of the outside auditors. The phrase "and for recommending that the Board of Directors take appropriate action to ensure the independence of the

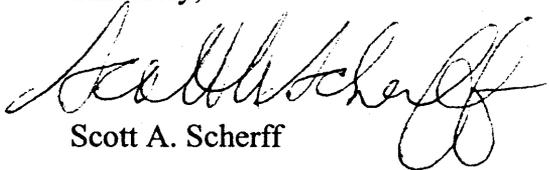
outside auditor" should be stricken from the proposed Section 303.01 (B)(1)(b) of the NYSE Listed Company Manual.

A third issue of concern that arises from the SEC proposal is connected to the requirement that companies' independent auditors review interim financial statements before they are filed with the Commission. The problem arises from the proposed revisions to SAS 71 by the Auditing Standards Board.

SAS 71 sets forth the procedure the auditors are required to follow for interim reviews. The proposed revisions would require involvement by the audit committee, or at least its chair, every quarter, whether or not any significant issues arose in connection with the review. Such a requirement is unduly burdensome, and will not improve the quality of financial reporting or disclosure. While we support contact with the audit committee if items of significance are discovered in the interim review, the time of the committee chair and other members should not be imposed upon on a routine basis without good reason. As previously noted, significantly increasing the time commitments of members of the audit committee may discourage the service of qualified directors on the committee.

We appreciate the opportunity to provide our comments on the proposals, and believe our suggested changes would enhance the overall recommendations.

Sincerely,



Scott A. Scherff

kss/katz ltr.sas

cc: Sherry Boothe
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775
Re: File 2280

COMMENT LETTER #15

November 29, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Statement on Auditing Standards (SAS), *Amendments to Statement on Auditing Standards No. 61, Communication with Audit Committees, and Statement on Auditing Standards No. 71, Interim Financial Information.*

We consistently have been supportive of the efforts of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (Blue Ribbon Committee), and our CEO, James Schiro, was a member of the Committee. In this regard, we view the various proposals by the New York Stock Exchange, the National Association of Securities Dealers, the American Stock Exchange, the Securities and Exchange Commission, and the Auditing Standards Board as consistent with the intent of the recommendations of the Blue Ribbon Committee. We believe the combined impact of these rules will lead to a marked improvement in financial reporting through the interactive efforts of audit committees, management, and external auditors.

In this connection, we support the final issuance of the proposed SAS. We have a few comments regarding specific aspects of the proposal that we submit for your consideration.

Part 1 – Communication with Audit Committees

Substance of the Communication

We are concerned that the technical language used to describe the substance of the discussion (particularly the references to representational faithfulness, verifiability, neutrality and consistency) may not be understandable to many practitioners, and certainly not understandable to most audit committee members, who may look to this language to help them frame their discussion with their auditors. Accordingly, we suggest that the fourth sentence of proposed paragraph 11 be revised as follows: “The discussion should also include the impact on the accounting information included in the financial statements of items such as the following, if they are significant to the financial statements: ...”

The original Blue Ribbon Committee recommendation suggested that the discussion include “such issues as the clarity of the company’s financial disclosures and degree of aggressiveness or conservatism of the company’s accounting principles and underlying estimates and other significant decisions made by management in preparing the financial disclosure.” The current proposal refers to “the clarity ... of the entity’s accounting information contained in the financial statements and related disclosures...” but not the “degree of aggressiveness or conservatism” referred to above. We understand that some believe that the concept of aggressiveness or conservatism is ambiguous and subjective. Nevertheless, we believe that these terms, while not easily defined, are relatively easily understood in financial circles and can serve as a useful benchmark for audit committee members. We would not object to the inclusion of these concepts in the final standard.

Documentation of the Communication

The last two sentences of the proposed new paragraph 11 are an attempt to encourage an open and frank discussion by not having the discussion hindered by the creation of a written record. However, we are concerned that the sentences, as written, do not give adequate guidance on the kind of written record that could be maintained by the auditor. Furthermore, we question whether it is appropriate to restrict such a writing by the auditor. We suggest that these two sentences be deleted, and that the auditor be permitted to use his or her discretion in creating the appropriate documentation of such communication. If this change is made, the suggested addition to paragraph 03 is not needed.

Part 2 – Interim Financial Information

The proposal indicates that the accountant should attempt to make the communication prior to a public announcement of interim information if one is made. We believe that mandating such communication prior to the earnings release would be both impractical and counterproductive. Recognizing concerns about insider trading and differential disclosures, companies know they need to release their quarterly earnings as soon as practicable. On the other hand, while companies and their accountants are best served by discussing significant accounting matters prior to earnings release, many aspects of the accountant’s review can, of necessity, only be conducted after the company closes its books and prepares complete financial statements. Compressing the timeframe for audit committee communications, and the associated pressure to complete the review prior to such communication, may lead to either delays in dissemination of financial information to the marketplace or pressure on the accountant to reach premature conclusions.

Therefore, we suggest that the requirement for communication be limited to prior to the filing of interim information with a regulatory agency.

* * * * *

If you have any questions regarding our comments, please feel free to contact James Gerson at (973) 236 7247.

Very truly yours,

PricewaterhouseCoopers LLP

COMMENT LETTER #16

November 29, 1999

Via Internet
sbooth@aicpa.org

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Amendments to Statements on Auditing Standards No. 61 and No. 71

Dear Ms. Boothe:

Exxon Corporation would like to make the comments contained in this letter on the proposed amendments to Statement on Auditing Standards No. 61 ("SAS 61") and No. 71 ("SAS 71"). The Exposure Draft dated October 1, 1999 proposed amendments of SAS 61 that would add paragraph 11 describing the discussion the auditor should have with the audit committee about the quality of the entity's accounting principles. We believe paragraph 11 covers the subject very well. In particular we agree that management should be an active participant in the discussion. Frequently it should prove helpful to have the active involvement of those who prepared the financial information and who can best address the reasons for the choices made in accounting principles. At the same time, if the auditor desires to speak to the audit committee alone, there should be an opportunity to do so.

We also support the decision to provide for an oral rather than a written communication on this subject. We believe that the goal of an open and frank discussion is an important purpose of this provision. That goal will be better served by oral communication.

As proposed in the Exposure Draft dated October 1, 1999, SAS 71 would include a new paragraph .26. It would require an auditor who has conducted a review of an entity's interim financial information prior to an SEC filing to attempt to communicate with the audit committee (or at least its chairman) and a representative financial management prior to such filing. We have no objection to that proposal. In fact, we have already undertaken such a communication prior to the filing of Exxon's Form 10-Q for the third quarter of 1999.

However, proposed paragraph .26 further requires the auditor to attempt to make such communication prior to the public announcement of such interim financial information, if it is

to be released prior to SEC filing. We believe this second requirement is a poor policy decision, is counterproductive, and should be deleted from the final form of paragraph .26 when it is adopted.

The vast majority of companies which are the subject of paragraph .26 (if not all of them) do release their interim financial information prior to the required filing of the Form 10-Q. This fulfills a valid investor desire for prompt financial information. Moreover, that information can be very market sensitive, depending on the results released. We think it would be a bad idea to be distributing such information to the members of the audit committee prior to public release of the information. Most importantly, the chance of market sensitive information falling into the hands of unintended recipients would be increased. This would be contrary to the strong effort by SEC Chairman, Arthur Levitt, to prevent market participants receiving material information prior to its public release.

Furthermore, even if the confidentiality of the interim financial information could be assured (which it cannot be), the public release of the information would be delayed. Providing audit committee members a copy of the information (and allowing time for them to review it) and providing the auditor the opportunity to speak to them on an informed basis would have to delay the release of this information. Our estimate would be a delay of at least one day. In a market where it is clear that there are substantial demands for release of such information as promptly as possible, such a delay is totally counterproductive to the interests of the market participants that paragraph .26 is supposed to enhance.



November 30, 1999

ALSO SENT VIA E-MAIL

Ms. Sherry Boothe
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 2280

Dear Ms. Boothe:

The Black & Decker Corporation appreciates the opportunity to respond to the Exposure Draft (ED), Proposed Amendments to Statement on Auditing Standards No. 61 and No. 71.

Our comments are offered in light of management's continued focus on adequate, timely, and relevant communication with our Audit Committee by the Independent and Internal Auditors, along with Senior Management as situations dictate.

Our comments on the issues raised in the ED follow. It should be noted that silence as to portions of the ED should not be viewed as acquiescence, rather prioritization of our comments.

Communication with Audit Committees

We encourage active communication between management, auditors and the audit committee. However, our view of an audit committee's responsibility is to ensure the adequacy of a control framework over financial reporting. This control framework should provide for communication with the committee over all types of risk involving business activities with financial reporting implications and significant judgments in the financial reporting process. As the audit committee is a committee of the board of directors, it has the authority and ability to make inquiries and requests of information from management and auditors alike. In that regard, we believe the promulgation of a standard which forces a limited communication of specified information may detract from the overall purpose of improving the audit committee function.

The proposed requirement for external auditor discussion of their judgement over quality of the company's application of generally accepted accounting principles may dilute the objective evaluation required by current standards and add to the volatility of comments to the committees, as judgments over quality of broad applications of GAAP are likely to be unable to be defined. In providing guidance for application of GAAP, current standards allow for professional judgement in their

application. No doubt, disparity exists within management and independent accountants as to their judgements. The added evaluation of "quality" would add to the subjectivity of reported information and may detract from the requirement for the external auditor to make overall judgements over the application of GAAP in the financial statements, taken as a whole.

We do believe that healthy discussions over new or revised applications of GAAP are of value to the audit committee. As a group (audit committee, management, internal and external audit) we often present and discuss views on these matters, however, we believe it is limiting and subjective to make an overall assertion of quality.

Furthermore, current professional standards allow for and encourage the adaptability of company policies within the guidelines of GAAP given economic and operational activities which are in constant evolution. The lack of guidance provided in this standard would allow for broad interpretation of subjective levels of "quality" and detract from the pertinent matter of application of generally accepted accounting principles which are quite clear on the differing accounting treatment and disclosure for changes in accounting principles and policies.

Furthermore, the ASB appears contradictory in this proposal, precluding written communication to the committee, significantly detracting from the effectiveness of the proposed process. Surely the ASB is recognizing the lack of objective criteria provided to management and auditors in making such an evaluation. For instance, in periods of personnel changes in senior members of independent auditors and management committee members, documented communications would provide the necessary background for continuity in such assessments. We question how this proposal could therefore add to the effectiveness of the audit committee.

Communications Related to Timely Quarterly Review

We believe open, meaningful dialogue among management, independent and internal auditors and the audit committee is critical to the effectiveness of the oversight of the financial reporting process. However, the proposed guidance suggesting that timely quarterly discussions would facilitate such discussion seems to reduce or change the significance of proactive activities at regular audit committee meetings and ignores the importance of open access to the committee by the external auditor throughout the audit process. We believe these forums currently provide opportunities for such discussion amongst all parties.

Therefore, we would encourage timely communication with the audit committee by the external auditor only when matters so dictate. Further, requiring communication on a positive (vs. negative) assurance basis may be misleading to the committee in light of the limited scope of interim reviews by the external auditor.

Should you have any questions or comments, please feel free to contact me.

Sincerely,



Steven E. Howarth
Vice President & General Auditor

COMMENT LETTER #18

November 30, 1999

Virginia Society of
Certified Public Accountants
Accounting and Auditing Procedures Committee
5813 Hamlet Road
Virginia Beach, Virginia 23464

Office 757.683.3514
FAX 757-683-5639
E-Mail dziegenf@odu.edu

Sherry Boothe,
Technical Manager
Audit and Attest Standards
File 2280
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Sherry:

The Accounting and Auditing Committee of the Virginia Society of Certified Public Accountants offers the following comments concerning the AICPA Exposure Draft of a proposed Statement on Auditing Standards, "Amendments to Statement on Auditing Standards No. 61, Communication with Audit Committees, and Statement on Auditing Standards No. 71, Interim Financial Information."

In general, we believe that this exposure draft is an excellent and comprehensive revision to those SASs incorporating the recommendations of the Blue Ribbon Commission on Audit Committees. We have no substantive corrections or additions to the exposure draft. We recommend its adoption because we feel its provisions will strengthen the financial reporting process.

Thank you for this opportunity to comment on this exposure draft and we await the final version of the standard.

Sincerely,

Dr. Douglas E. Ziegenfuss, CPA
Chair

COMMENT LETTER #19

With respect to the proposal in paragraph 11 regarding required communications regarding the quality of accounting principles, I believe the communications should be in writing and specific. The way this proposal is drafted, it appears to be a total "CYA" attempt on behalf of the CPA firms, without doing justice to the recommendations of Chairman Leavitt. The CPA firms are best positioned by getting as many of the potentially contentious issues on the table, in writing, to eliminate potential confusion or misunderstanding on the part of the audit committee and senior management. This proposal just validates the current smoke and mirrors shuffle being performed by the Big 5 firms in an attempt to maintain clients in the face of a deteriorating audit service offering at a time of increasing standards complexity.

At a recent financial reporting symposium in Chicago, I made the recommendation (with tongue only partly in cheek), which was greeted by gasps from the Big 5 representatives on the panel, that the traditional "Summary of Passed Adjustments" that is prepared by CPA firms during the course of the audit be filed as a schedule to the annual Form 10-K filing. The schedule could be referred to as supplemental information in the audit report (or covered by a separate statement) and management would have the opportunity to take exception to the schedule if they so chose.

The point that everyone is missing, including the SEC with the recent issuance of SAB 99, is that you cannot mandate morality in financial reporting. This proposed amendment to the SAS's does nothing substantive to address the issues raised by the BRC and, in fact, puts the profession in a less defensible position with respect to the quality of its services. The profession and the investing public will always best served by making as much relevant and reliable information available as possible. By making the aforementioned information available, the public can then improve their own investing decisions, based in part on JUDGMENTS made by the CPA firms. Disclosing such information would also further the efforts to close the age-old "expectations gap", as the public would get a better appreciation of the types of JUDGMENTS that underpin the issuance of an opinion (read a JUDGMENT issued in writing) on a set of financial statements.

With the move to more of a real-time reporting model, the trend in the auditing profession should be in the direction of providing additional substantive information to the investing public and other users of audited financial statements. These proposed amendments appear to do more to support an auditor in a court of law when defending a claim of audit failure / negligence than to be a bona fide response to the BRC recommendations.

We as a profession can do better than this.

Sincerely,

Lawrence P. Brown - CPA
Chicago, Illinois



UNIVERSITY OF WASHINGTON

COMMENT LETTER # 20

Dr. Kathryn Kadous
Department of Accounting, Box 353200
University of Washington
Seattle, WA 98195-3200

November 30, 1999

Ms. Sherry Boothe
Audit and Attestation Standards, File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards: Amendments to SAS No. 61 and SAS No. 71

Dear Ms. Boothe:

Attached please find an academic research paper that provides empirical evidence regarding two issues in the above-referenced proposed auditing standard. The study uses an experimental methodology to assess the likely effectiveness of the proposals. Professional auditors from a Big Five accounting firm participated in the study.

Discussions about the Quality of Accounting Methods (Proposed amendments to SAS No. 61)

Data in our study provide no evidence that discussions between the auditor and the audit committee about the quality and appropriateness of earnings will mitigate against aggressive reporting. In our data, experienced auditors are more likely to identify a client-preferred, aggressive accounting method as the most appropriate method and are more likely to deem it to be acceptable when pressure on the auditor to agree with the client is higher. Further, an explicit request that auditors evaluate the quality, not just the acceptability, of the client's preferred accounting method does not reduce, and sometimes elevates, the likelihood that auditors will deem an aggressive method to be acceptable. Please refer to the attached paper for details.

Pre-Announcement/Pre-Filing Reviews (Proposed amendments to SAS No. 71)

Our study indicates that earlier auditor involvement in a client firm's decisions about accounting methods likely will mitigate against aggressive financial reporting. Specifically, we find that experienced Big Five auditors are less likely to deem a client's aggressive accounting method to be acceptable when the auditor is involved in management's decision making before, rather than after, quarterly statements have been released to the public and filed with

the SEC. This effect is attributed to the fact that late involvement with contentious issues puts pressure on the auditor to accept client-preferred accounting methods. Please refer to the attached paper for details.

Thank you for the opportunity to bring our study to your attention.

Sincerely,

Kathryn Kadous
Assistant Professor

**Auditors' Judgments of the Acceptability of Client-Preferred
Accounting Methods**

Kathryn Kadous*

Jane Kennedy*

Mark E. Peecher**

*Department of Accounting, Box 353200
University of Washington
Seattle, WA 98195-3200

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reproduced in
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**Department of Accountancy
University of Illinois at Urbana-Champaign
206 S. Sixth Street
Champaign, IL 61820

November 1999

Thanks to Vairam Arunachalam, Van Johnson, Anne Magro, Elaine Mauldin, Linda Myers, Lisa Sedor, D. Shores, Ira Solomon, and workshop participants at the Universities of Illinois, Missouri, Texas and Washington for helpful comments.

COMMENT LETTER #21

November 30, 1999

Ms. Sherry Boothe
Audit and Attest Standards; File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Exposure Draft, Amendments to Statement on Auditing Standards No. 61, Communication With Audit Committees, and Statement on Auditing Standards No. 71, Interim Financial Information

Dear Ms. Boothe:

One of the objectives that the Council of the American Institute of CPAs established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective.

TIC has reviewed the above referenced exposure draft and is providing the following comments and suggestions for your consideration.

General

The members of TIC appreciate having had the earlier opportunity to informally provide input regarding the appropriate scope of the anticipated exposure draft. TIC believes that the scope of the exposure draft as set forth in paragraph 11 is appropriate. TIC members agree that, as stated in the summary of the SAS No. 61 amendments, "the application of this requirement to non-SEC organizations that have audit committees may not be meaningful and cost-effective at this time."

Part 1 – Paragraph 11

If adopted as proposed, paragraph 11 of SAS No. 61 would require the auditor to discuss with the audit committee the auditor's judgments about the "quality," not just the acceptability, of the entity's accounting principles as applied in its financial reporting. That paragraph would also prohibit written communications of the auditor's judgments because "objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting measurements and disclosures."

Definition of "Quality"

TIC members are concerned that the “quality” of an entity’s accounting principles is not defined in today’s literature and that due to the lack of the objective criteria noted above, the proposed requirement will be difficult to apply and will not be operational.

The requirement to discuss “quality” seems to put the auditor in the position of “judging” generally accepted accounting principles (“GAAP”). Presumably, if accounting principles are in accordance with GAAP, they are acceptable. If they are not acceptable and the impact is material, this would result in an adjustment or a proposed adjustment that would be reported under the current SAS No. 61 requirements. Furthermore, TIC believes that if an auditor communicates to an entity’s audit committee that certain accounting principles, while acceptable, are of a “low quality,” that auditor may ultimately be exposed to increased liability should that entity fail.

The difficulty in applying the proposed requirement can be illustrated through an example of a hypothetical entity that sells only one product - metal “widgets.” Such an entity would have the option to select a first-in first-out (“FIFO”) or a last-in first-out (“LIFO”) cost flow assumption for its inventory valuation. FIFO and LIFO are both acceptable methods of accounting for inventory and all other things being equal, it is unclear whether one cost flow method would be of a “higher quality” versus the other method.

Written Communications

Given the various issues and concerns noted above, the members of TIC believe that the communications covered by paragraph 11 could be subject to misunderstanding or misinterpretation by audit committees. Consequently, TIC recommends that the auditor be given the option of documenting those communications in writing.

Part 2 – Paragraph 25

The proposed revision to paragraph 25 of SAS No. 71 would require auditors of SEC clients to consider whether any of the matters described in SAS No. 61, as they relate to interim financial information, have been identified. If so, the auditor should communicate them to the audit committee or be satisfied, through discussions with the audit committee, that such matters have been communicated to the audit committee by management.

Matters to be Communicated

TIC members believe that it is unclear whether the matters to be communicated pursuant to the revised paragraph 25 would include the “quality” of an entity’s accounting principles as contemplated by the proposed revisions to SAS No. 61. Consequently, TIC recommends that this issue be clarified.

We appreciate the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Candace Wright, Chair
PCPS Technical Issues Committee

CW:lec

cc:

new york state society of

NYSSCPA

certified public accountants

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Louis Grumet	Executive Director

November 30, 1999

RE: Proposed Statement on Auditing Standards: Amendments to Statements on Auditing Standards No. 61 *Communications with Audit Committees* and No. 71 *Interim Financial Information*--File 2280

Sherry Boothe, Technical Manager
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York NY 10036-8775

Dear Ms. Boothe,

The New York State Society of Certified Public Accountants is pleased to submit the attached comments on the proposed amendments to statements on auditing standards. The Society's Auditing Standards and Procedures Committee developed the comments. We would be pleased to respond to questions you may have about the comments.

Very truly yours,



Vincent J. Love, CPA
Chair
Auditing Standards and Procedures Committee

cc: James L. Craig, Jr., Technical Services
Auditing Standards and Procedures Committee
Accounting and Auditing Committee Chairs

NYSSCPA Committee on Auditing Standards and Procedures

Comments on the Exposure Draft

**Proposed Statement on Auditing Standards
Amendments to
Statement on Auditing Standards No. 61
Communications with Audit Committees
And
Statement on Auditing Standards No. 71
*Interim Financial Information***

The Auditing Standards and Procedures Committee of the New York State Society of Certified Public Accountants (the "Committee") would like to thank the AICPA Auditing Standards Board (the "Board") for this opportunity to comment on the Proposed Statement of Auditing Standards, Amendments to Statement on Auditing Standards No. 61, *Communications with Audit Committees*, and Statement on Auditing Standards No. 71, *Interim Financial Information*.

While we believe overall that the proposed amendments are appropriate, we question the timing of the Exposure Draft. Why not wait until the SEC issues the proposed rule(s) that are mentioned in the Exposure Draft as the genesis of the recommended changes. Of course, if the SEC issues its proposed rule(s) by the time the amendments are issued and the amendments properly address the proposed rule(s), this timing comment is moot.

As to the prohibition against any written communication with an entity's audit committee concerning the quality of the entity's accounting principles and underlying estimates in its financial statements, we believe the choice of communication media should be left to the auditor. The wording in the Exposure Draft should recommend that the communication be oral and not in writing to facilitate a more frank and open discussion, but it should not prohibit written communications.

The Committee greatly appreciates this opportunity to comment on the proposed amendments and hopes that its recommendations are helpful to the Board.

#23

November 30, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Proposed Statement on Auditing Standards (SAS)—Comment Letter
Amendments to SAS No. 61, *Communication With Audit Committees*
and SAS No. 71, *Interim Financial Information*

Dear Ms. Boothe:

We are pleased to submit this comment letter to the Auditing Standards Board with regard to the Proposed SAS *Amendments to SAS No. 61, Communications With Audit Committees* and SAS No. 71, *Interim Financial Information*, and we are supportive of the issuance of this SAS. We have supported the efforts of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC), and we also support the proposed changes to promptly implement the recommendations which apply to auditing standards.

We have the following recommendations to further improve the Exposure Draft:

1. We recommend that the wording in the amendments to SAS 61 revert to the "aggressive or conservative" wording recommended by the Blue Ribbon Committee.
2. We recommend the communication of the "quality, not just the acceptability, of the company's accounting principles" be integrated with the existing communication requirements regarding accounting policies and estimates rather than added as a new item in the list.
3. The discussion contemplated by the amendments to SAS 61 would be appropriate as part of the annual communication with the audit committee of matters related to the conduct of the audit, but we do not believe it would be appropriate as part of a discussion resulting from a quarterly review. Accordingly, we recommend that the amendment state that this discussion need not apply to quarterly reviews.
4. We recommend that the amendments to SAS 71, as they relate to the importance of the timing of the discussion between the auditor and the audit committee, revert to the stated approach recommended by the Blue Ribbon Committee, that is that the matter be discussed "...prior to the filing of the

Form 10-Q (and preferably prior to any public announcement of financial results)..."

Attached to this letter is a further discussion of each recommendation.

We would be pleased to discuss our comments with members of the Auditing Standards Board or its staff.

Sincerely,
Ernst & Young LLP

Attachments A & B

ATTACHMENT A

Comments on Proposed SAS *Amendments to SAS No. 61,*
Communications With Audit Committees

BRC Recommendation 8 states the following:

The Committee recommends that Generally Accepted Auditing Standards (GAAS) require that a company's outside auditor discuss with the audit committee the auditor's judgments about the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting; the discussion should include such issues as the clarity of the company's financial disclosures and degree of aggressiveness or conservatism of the company's accounting principles and underlying estimates and other significant decisions made by management in preparing the financial disclosure and reviewed by the outside auditors. This requirement should be written in a way to encourage open, frank discussion and to avoid boilerplate.

In response to this recommendation, the AICPA Auditing Standards Board developed an amendment to Statement on Auditing Standards No. 61, *Communication With Audit Committees*, that would:

- require that the auditor discuss the auditor's judgments about the quality, not just the acceptability, of the company's accounting principles with the audit committees of SEC clients.
- require the discussion to include such matters as the consistency of application of the entity's accounting policies and the clarity, consistency, and completeness of the entity's accounting information contained in the financial statements and related disclosures. The discussion is also to include certain items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information included in the financial statements. Examples of items that may have such impact are the following:
 - selection of new or changes to accounting policies
 - estimates, judgments, and uncertainties
 - unusual transactions
 - accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded
- encourage a three-way discussion among the auditor, management, and the audit committee.
- prohibit auditors from communicating in writing the auditor's judgments.

In providing background on this recommendation, the BRC report described other required communications that presently exist in auditing standards (including matters such as disagreements with management, consultations with other accountants,

ATTACHMENT A

difficulties in performing the audit, and reportable conditions). In contrast, the Committee report described the need for information on the more subjective judgments concerning estimates, elective accounting principles and new significant transactions, and the report recommended that the amendments to the standards be written in a way to encourage an open, frank discussion of such matters and to avoid boilerplate.

In developing the specific wording for the proposed amendments to SAS 61 to implement this recommendation, the Auditing Standards Board replaced the term "degree of aggressiveness or conservatism" with terms taken from FASB Concept Statement 2. This was done in the belief that such terms would facilitate a frank and open discussion because they were already reflected and defined in FASB literature as fundamental concepts underlying quality financial accounting and reporting and were already applicable to a company's accounting policies. However, in using such technical terminology, the exposure draft of the amendments moves away from terms that are more commonly used—such as "aggressive" or "conservative" policies—and emphasizes terms that are less well understood—such as "representational faithfulness". Although such technical terms are taken from FASB literature, using them as the basis for the communications described by the Blue Ribbon Committee report is not likely to facilitate an "open, frank discussion" between the auditor and audit committee.

Additionally, the amendments to SAS 61 make clear that management should be an active participant in the discussions. We concur with this change, but also believe that the inclusion of management along with the audit committee further increases the importance of using terminology in common usage such as "aggressive and conservative."

Accordingly, we recommend that the wording in the amendments to SAS 61 revert to the "aggressive or conservative" wording recommended by the Blue Ribbon Committee.

Further, this amendment proposes adding this additional communication requirement as a new item in the list of items in SAS 61. However, the nature of this item overlaps existing communications already required, especially those regarding "significant accounting policies" (AU380.07) and "management judgements and accounting estimates" (AU380.08). We believe that the discussion of the quality of accounting principles should be conducted as a part of the discussion of significant accounting policies and estimates. Accordingly, we recommend the communication of the "quality, not just the acceptability, of the company's accounting principles" be integrated with the existing communication requirements regarding accounting policies and estimates rather than added as a new item in the list.

Finally, the discussion contemplated by this amendment would be appropriate as part of the annual communication with the audit committee of matters related to the conduct of the audit, but we do not believe it would need to be part of a discussion resulting from a quarterly review. Accordingly, we recommend that the amendment state that this discussion need not apply to quarterly reviews.

ATTACHMENT B

Comments on Proposed SAS *Amendments to SAS No. 71,*
Interim Financial Information

BRC Recommendation 10 states the following:

The Committee recommends that the SEC require that a reporting company's outside auditor conduct a SAS 71 Interim Financial Review prior to the company's filing of its Form 10-Q.

*The Committee further recommends that SAS 71 be amended to require that a reporting company's outside auditor discuss with the audit committee, or at least its chairman, and a representative of financial management, in person, or by telephone conference call, the matters described in AU Section 380, *Communications With the Audit Committee*, prior to the filing of the Form 10-Q (and preferably prior to any public announcement of financial results), including significant adjustments, management judgments and accounting estimates, significant new accounting policies and disagreements with management.*

In response to this recommendation, the AICPA Auditing Standards Board developed an amendment to Statement on Auditing Standards No. 71, *Interim Financial Information*, that would:

- clarify that the auditor should communicate to the audit committee those matters described in section 380, *Communication With Audit Committees*, when they have been identified in the conduct of interim financial reporting
- require an auditor of an SEC client to attempt to discuss with the audit committee the matters described in SAS No. 61 prior to the filing of the Form 10-Q
- require an auditor of an SEC client to attempt to have this discussion prior to the entity releasing interim financial information in a public announcement (if the announcement is made prior to the filing of Form 10-Q)

In providing background on this recommendation, the BRC recognized that the auditors' ability to fulfill this requirement would be dependent on the cooperation and availability of financial management and the audit committee. In keeping with this reality, we agree with Auditing Standards Board's insertion of the word 'attempt' into the amendment language.

Based on the BRC background discussion and the recommendation itself, we believe that the BRC's primary intent was to require the involvement of the auditor in interim financial reporting "prior to the filing of the Form 10-Q (and preferably prior to any public announcement of financial results)." The proposed amendments to SAS 71 go beyond the BRC recommendation, as they put the importance of the timing of the discussion relative to the filing of the Form 10-Q and publication of financial results on an equal footing by stating that the discussion occur prior to the filing of the Form 10-Q and prior to any public announcement of financial results.

ATTACHMENT B

An entity's process for making a public announcement of financial results differs from the process for filing Form 10-Q. The process for filing Form 10-Q is typically more formal, and more involved, than the process for the public announcement of financial results. Accordingly, we recommend that the amendments to SAS 71, as they relate to the importance of the timing of the discussion between the auditor and the audit committee, revert to the stated approach recommended by the Blue Ribbon Committee.

#24

**Deloitte &
Touche**



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November 30, 1999

Ms. Kim Gibson
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: **File 2280**

Dear Ms. Gibson:

We are pleased to comment on the Proposed Statement on Auditing Standards, *Amendments to Statement on Auditing Standards No. 61, Communication with Audit Committees, and Statement on Auditing Standards No. 71, Interim Financial Information.*

We fully support amending existing standards to adopt requirements directed toward improving the quality of communications with audit committees. We believe that the proposal is an important step forward in providing additional information that may assist audit committees in overseeing the financial reporting and disclosure process and thereby contribute to increasing the audit committee's effectiveness. However, we believe that the prohibition on written communications to audit committees regarding the auditor's judgments about the quality of the entity's accounting practices and disclosures is not practicable for the reasons discussed in the attachment to this letter and should be deleted from the proposed standard. Also, we believe that additional guidance is needed concerning the communication of matters noted in a review of interim financial information as discussed in the attachment to this letter.

Additionally, we have some recommendations concerning the proposed standard's effective date and several editorial comments for your consideration, as described in the attachment to this letter. Our recommended revisions to the proposed standard are shown in bold text and strike-through text.

Please contact Robert C. Steiner at (203) 761-3438 if you wish to discuss our comments.

Sincerely,

Attachment

**Deloitte Touche
Tohmatsu**

Part 1, Amendment to Statement on Auditing Standards No. 61

Paragraph 1

We strongly believe the prohibition on written communications to audit committees regarding the auditor's judgments about the quality of the entity's accounting practices and disclosures in the proposed standard is unworkable. Although we agree that an oral discussion with the audit committee will elicit more open and frank discussions, we also recognize that a written communication may be necessary or appropriate in certain situations. For example, if an audit committee is unwilling to engage in a discussion, the auditor would be unable to discharge his or her responsibility under generally accepted auditing standards unless a written communication is permitted. Also, an audit committee may request the auditor to render a written communication that summarizes the significant matters that were communicated orally—a request that the auditor may be unable to decline. Accordingly, we recommend that paragraph 3 of SAS No. 61 not be amended, as proposed, and that the prohibition against communicating in writing the matters discussed be deleted from the proposed standard.

We recommend that paragraph 11 be revised to read as follows:

11. In connection with each SEC engagement (see paragraph .01) the auditor should discuss with the audit committee the auditor's judgments about the quality, not just the acceptability, of the entity's accounting principles as applied in its financial reporting. Since the primary responsibility for establishing an entity's accounting principles rests with management, the discussion **should generally would** include management as an active participant. The discussion **generally would should** include such matters as the consistency of application of the entity's accounting policies and the clarity, consistency, and completeness of the entity's accounting information contained in the financial statements and related disclosures. The discussion **would should** also include items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency⁴ of the accounting information included in the financial statements. Examples of items that may have such impact are the following:

- **The critical elements of internal control that assure the effectiveness of the financial reporting process**
- Selection of new or changes to accounting policies
- Estimates, judgments, and uncertainties
- Unusual transactions, **including transactions with related parties**
- Accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded
- **The adjustments proposed by the auditor that were not recorded and management's reasons for not recording them**

⁴ The terms "representational faithfulness," "verifiability," "neutrality," and "consistency" are discussed in FASB Statement of Concepts No. 2, "Qualitative Characteristics of Accounting Information," paragraphs 63-64, 81-89, 98-110 and 120-122, respectively.

The discussion should be tailored to the entity's specific circumstances, including accounting applications and practices not explicitly addressed in the accounting literature, for example, those that may be unique to an industry. Objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting measurements and disclosures. Given this lack of objective criteria and to facilitate an open and frank discussion, the auditor's judgments *ordinarily should* ~~would be communicated orally not be communicated in writing. If the communication is made orally,~~⁵As a result the auditor need only document in the working papers that the discussion has taken place, the date of the discussion, and the participants.

⁵ [Old footnote 4 renumbered to footnote 5]

Part 2, Amendment to Statement on Auditing Standards No. 71

Paragraph 3

We support the proposed requirement that the accountant communicate timely with the audit committee. Situations may arise wherein the audit committee may believe it unnecessary to have discussions with the accountant upon completion of the review. In those circumstances, we believe the accountant should cover those matters when making the communications specified by paragraph 6 through 16 of AU Section 380 (as amended) incidental to the annual audit. We recommend the addition to the proposed standard of guidance to that effect.

Additionally, we believe that clarification is needed with respect to the specific matters described in AU Section 380 that should be communicated to the audit committee arising out of a review of interim information. Certain of the matters discussed in AU Section 380, such as the auditors' responsibility under GAAS and difficulties encountered in performing the audit are not applicable to reviews of quarterly information. In addition, the accountant's responsibility for other information in documents containing interim information is addressed in AU Sections 722.33 and 550. Accordingly, we recommend that the proposed standard state that, to the extent applicable, the matters described in paragraphs 7 through 10, 13 and 14 of SAS No. 61 (as amended and renumbered by SAS No. 89 and Part 1 of this proposed standard) should be communicated to the audit committee as a result of the accountant having performed a review of interim financial information (i.e., significant accounting policies, management judgments and accounting estimates, audit adjustments that could have a significant effect on the entity's financial reporting process, disagreements with management and consultations with other accountants).

Finally, we recommend that the proposed standard explicitly acknowledge, as AU Section 380 does, that the communication may be written or oral, and if oral, that the accountant document the matters discussed by memorandum or other notation in the working papers.

Accordingly, we recommend paragraph 3 be revised to read as follows:

3. This amendment revises SAS No. 71 (AU sec. 722.25) and includes a new paragraph (AU sec. 722.26) to reflect recommendation number 10 of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. It requires auditors of SEC clients to ~~attempt to~~ discuss with audit committees the matters described in SAS No. 61, **paragraphs .07 through .10, .13 and .14, preferably** prior to the filing of the Form 10-Q or, if applicable, prior to a public announcement of interim information. The new language is shown in boldface italics; deleted language is shown by strikethrough. [AU sec. 722.26-.44 is renumbered 722.27-.45.]

.25 In performing the procedures in paragraphs .13 through .19, the accountant ~~may identify should consider whether any of the~~ matters described in **paragraphs .07 through .10, .13 and .14 of section 380, *Communication With Audit Committees*, that as they relate to the interim financial information, have been identified and that if such matters should be communicated to the audit committee.** The accountant should communicate them to the audit committee or be satisfied, through discussions with the audit committee, that such matters have been communicated to the audit committee by management. For instance, the accountant should determine that the audit committee is informed about the process used by management in formulating particularly sensitive accounting estimates or about a change in a significant accounting policy affecting the interim financial information.

.26 When the accountant has conducted the review prior to the entity's filing of the interim financial information with a regulatory agency (such as the SEC), he or she should ~~attempt to make such communications with~~ **communicate the matters noted** to the audit committee, or at least its chairman, and a representative of financial management prior to such filing. If the entity intends to release interim financial information in a public announcement prior to such filing, the accountant should ~~attempt to~~ make such communications prior to such public announcement. If such communications are not made prior to the public announcement or filing, as applicable, **because the audit committee does not wish to have a timely communication**, they should be made as soon as practicable in the circumstances.⁸ **The communications may be oral or written. If the matters are communicated orally, the accountant should document the matters communicated by appropriate memoranda or other notations in the review working papers.**

⁸ **If the audit committee does not wish to have a timely communication of matters relating to the interim financial information, the accountant should include communication of those matters in the communications specified by AU Section 380 in connection with the annual audit.**

[Old footnotes 8-18 renumbered 9-19]

Paragraph 4

The SEC has proposed new rules that, if adopted, would require pre-filing reviews of quarterly financial information and has sought input on a number of issues, the resolution of which could require further modification of AU Section 722. Those issues include whether a requirement that the review report be filed with the SEC be adopted, and whether the review report should set forth the scope of the review procedures performed. Accordingly, we believe the proposed standard should be issued only after analysis of the additional effects on AU

Section 722, if any, of the SEC's final requirements for timely review of interim financial information.

It may be that the final standard cannot be issued any earlier than the first quarter of the calendar 2000, and considering the work loads of preparers and auditors during that time of year, we believe it would not be feasible to implement the requirements of Part 2 of the proposed standard for the first quarter of the calendar year 2000 (or even the second quarter, depending on the actual issuance date). We believe an effective date should be set for a year in which the standard may be first applied for all quarters. Accordingly, we recommend that the effective date for this part of the proposed standard be for interim periods in fiscal years beginning on or after June 15, 2000. However, we would not object to permitting earlier application, including mid-year adoption during calendar year 2000.

New York State Bar Association



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#25

BUSINESS LAW SECTION

1999-2000 Executive Committee

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December 2, 1999

AICPA

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New York, NY 10036-8775

E-mail address: sboothe@aicpa.org

Attention: Sherry Boothe
Audit and Attest Standards

Re: Proposed Amendments to Statement on Auditing Standards No. 61, *Communication With Audit Committees*, and Statement on Auditing Standards No. 71, *Interim Financial Information* (October 1, 1999)
File 2280

Ladies & Gentlemen:

The Committee on Securities Regulation of the Business Law Section of the New York State Bar Association appreciates the opportunity to comment on the AICPA's proposed amendments to SAS 61 and SAS 71 (the "Proposal"). The Proposal is in response to the recommendations made in the Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees for implementation by the AICPA, the Securities and Exchange Commission, and stock exchanges.

The Committee on Securities Regulation is composed of members of the New York State Bar Association, a principal part of whose practice is in securities regulation. The Committee includes lawyers in private practice and in corporation law departments. A draft of this letter was circulated for comment among members of the Committee and the views expressed in this letter are generally consistent with those of the majority of the members who reviewed the letter in draft form. The views set forth in this letter, however, are those of the Committee and do not necessarily reflect the views of the organizations with which its members are associated, the New York State Bar Association, or its Business Law Section.

A. General

The Proposal, together with related proposals of the Commission and the stock exchanges, are intended to make audit committees more effective. The Committee generally agrees with the Proposal, provided that the changes discussed below are made.

B. SAS 61 - Communication with Audit Committees.

The Proposal would require that the auditor's discussion with the audit committee go beyond the acceptability of the company's accounting principles and include various items relating to the auditor's judgments about the "quality" of the company's accounting principles.

The additional discussion would include: consistency of application of accounting policies; clarity, consistency and completeness of the accounting information; items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information, such as selection of new or changes to accounting policies, estimates, judgments and uncertainties, unusual transactions, and accounting policies relating to significant financial statement items.

While we agree with most of the specific items to be discussed by the auditors with the audit committee where significant, we oppose the requirement to discuss the "quality" of the accounting principles because that term has no objective standards in the accounting literature.

Generally Accepted Accounting Principles ("GAAP") is the historically recognized standard, not "quality." The Proposal itself even prohibits the auditor from communicating its judgments about "quality" in writing in order to facilitate an open and frank discussion and because of the lack of criteria. Therefore, we urge the AICPA to eliminate the requirement to discuss the "quality" not just the acceptability of the company's accounting principles.

We are concerned that the "quality" proposal could lead to lawsuits and possible liability for audit committees and their members because they would be subject to a standard for financial statements that has no established meaning. This new potential for litigation and liability also could discourage qualified persons from serving on audit committees. The AICPA apparently recognizes this potential for increased liability insofar as auditors are concerned in the Proposal's prohibition on auditors expressing judgments on "quality" in writing.

Finally, we urge that terms such as "clarity", "neutrality" and "representational faithfulness" be deleted because they do not have a recognized objective meaning. Those terms, and "quality", are based on a conceptual framework put out by FASB in 1980.^{*} While the average reader may think a discussion on "quality" somehow has to do with superiority or excellence, in the Concepts Statement the focus is on the qualities or characteristics of accounting information to be considered in developing accounting standards. The term "quality" and such other terms were not intended to be standards for the application of generally accepted accounting principles in a company's financial reporting.

^{*} Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information (May 1980).

C. SAS 71 - Interim Financial Information.

a. Discussion Regarding Interim Financials

SAS 71 presently requires the auditors to have SAS 61 discussions for annual audits. The Proposal would require SAS 61 discussions in connection with interim financials. Under the new Proposal, the auditor would have to communicate to the audit committee, or be satisfied through discussions with the audit committee, that management communicated to the committee any SAS 61 matters identified in the conduct of the interim financial review.

We agree with the proposal to require a discussion of SAS 61 information identified in connection with interim financial statements, provided that the SAS 61 information is modified in accordance with our comments to eliminate the requirement to discuss the "quality" of accounting principles and delete certain of the proposed items, as discussed above.

The major accounting firms are in most cases now requiring such reviews for new audit engagements. In addition, many large corporations already have SAS 61 type discussions with their auditors in connection with their interim financial statements. We believe that the Proposal will not add significantly to the burden and expense of auditor reviews for most companies, although some companies who do not now have SAS 71-type reviews on interim financial statements will face additional cost and delays in release of interim financial statements.

b. Transition Period

Finally, those companies who presently do not have SAS 71-type reviews for interim financials will need time to coordinate future audit committee meetings with the internal review timetables, establish procedures and make other necessary arrangements to implement the new requirements. Under the currently proposed effective date, the new requirements would apply to first calendar quarter 2000 interim financial statements for calendar year companies. This would not permit adequate time to implement the new requirements. Therefore, we recommend that the proposed effectiveness of the new requirements be extended one year.

c. Timing of Discussions Regarding Interim Financials

We agree that the independent auditor should discuss SAS 61 matters identified with respect to interim financial statements with the audit committee, or the chair of the committee, and company financial management prior to filing the Form 10-Q.

We also believe that some large companies already have SAS 61 discussions prior to public announcement of results. Those companies could apply the new requirements to public announcements without any significant burden or delay. However, the requirement could cause delays in earnings releases for other companies. Although we believe it is in a company's own best interests to have the audit committee discussions prior to release of earnings, if practicable, we understand that will not work for some companies. Therefore, we recommend that the proposal delete the reference to discussions prior to public announcement.

We hope that you will find these comments helpful. We would be happy to meet with you to discuss these comments further.

Respectfully submitted,

COMMITTEE ON SECURITIES REGULATION

By: Guy P Lander / By MJH
Guy P. Lander
Chairman of the Committee

Drafting Committee:

Michael J. Holliday
Gerald S. Backman
Richard E. Gutman

Donald E. Kiernan
Senior Executive Vice President
and Chief Financial Officer

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#26



November 29, 1999

Ms. Sherry Boothe
Audit and Attest Standards
File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Boothe:

We have reviewed the exposure drafts of amendments to Auditing Standards Nos. 61 and 71.

We agree with the amendment to Auditing Standard No. 61, which would require the external auditor to discuss with management and the audit committee their judgments about the quality and consistency of the client's accounting principles and completeness of accounting information. We believe that this is an appropriate amendment and that it is in the best interest of our shareholders.

However, we recommend that the Board reconsider the proposed amendment to Auditing Standard No. 71. The amendment would require the external auditor to discuss with the audit committee or its chairman certain matters that arise from a review of quarterly financial information prior to its public announcement. It is our belief that both management and the external auditor have specific responsibilities on these matters and dedicate appropriate resources in preparing and reviewing quarterly information. Further, we believe that both management and the external auditor are expected to inform the audit committee before the public release of interim financial results if there are any extraordinary issues or disagreements. As such, we believe that requiring the communications of quarterly financial information reviews prior to their release is not necessary.

We appreciate the opportunity to comment on the AICPA's proposed amendments.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. E. Kiernan", written in dark ink.



FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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November 23, 1999

Ms. Sherry Boothe
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RE: Exposure Draft: Amendments to Statement on Auditing Standards No. 61,
Communication with Audit Committees and Statement on Auditing Standards No.
71, *Interim Financial Information*

Dear Ms. Boothe:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed and discussed the above referenced exposure draft. The Committee has the following comments regarding this exposure draft.

The Committee has some general concerns with these two proposed amendments. The first concern relates to the appearance that the amendments are shifting responsibility from management to the auditor. It is management's responsibility to select appropriate accounting principles within generally accepted accounting principles and the auditor's responsibility to report on the fairness of the financial statements. These proposed amendments appear to be shifting the burden for the selection of the accounting principles more toward the direction of the auditor.

The second concern relates to the vagueness of some of the terms used in the proposed amendments. The Committee had difficulty defining some of the terms such as representational faithfulness and consequently is unsure as to how to apply them in practice.

Lastly, the Committee has concerns over the evaluation of the "quality" of an entity's accounting measurements and disclosures. Professional literature does not define the term quality. The Committee would like to see some authoritative guidance given as to how to define and measure quality.

As always, the Committee appreciates the opportunity to share our views and concerns and to comment on exposure drafts. Members of the Committee are available to discuss any questions you may have regarding this communication.

Sincerely,

A handwritten signature in cursive script that reads "Joy L. Gibson".

Joy L. Gibson, CPA

Chairman

FICPA Committee on Accounting Principles and Auditing Standards

Committee members coordinating this response:

Joy L. Gibson, CPA

Robert T. Loverich, CPA

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November 23, 1999

Chevron Corporation
575 Market Street
San Francisco, CA 94105-2856

M. R. Klitten
Vice President, Finance

Mr. Jonathan G. Katz
Secretary
U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

**COMMENT: PROPOSED RULE ON AUDIT COMMITTEE DISCLOSURE
FILE No. S7-22-99**

Dear Mr. Katz:

On behalf of Chevron Corporation, I appreciate the opportunity to comment on the Commission's proposed rule on Audit Committee Disclosure.

The positions taken by the Commission in this proposal improve on the Blue Ribbon Committee's recommendations in that they are clearer and more pragmatic. However, we wish to comment on two of the questions raised in the proposed rule.

Section III.A (Pre-Filing Review of Quarterly Financial Statements), discusses the independent auditor's SAS 71 interim review. One specific question is:

"Should we require that interim reviews be completed prior to quarterly "earnings releases," when a company releases to the public financial results before the Form 10-Q or 10-QSB is filed?"

We believe that it is very much in the interest of the investing public that companies disclose financial results as soon as possible, which is generally before the 10-Q can be completed. When Chevron releases earnings, we have completed a management review and our independent auditor has completed much—but not necessarily all—of its SAS 71 interim review. Holding back public disclosure of our interim financial results until the final completion of the SAS 71 review (and discussions with the audit committee or its chair) would not serve the public interest. Any unnecessary delay in dissemination of financial data would appear to run counter to the Commission's public statements.

Consequently, we believe strongly that the SAS 71 interim review should be completed prior to the filing of the Form 10-Q, but not before the earnings press release is issued.

Mr. Jonathan G. Katz
November 23, 1999
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Under Section III.E (Proposed Safe Harbors), the proposed rule acknowledges that "...notwithstanding the audit committee's critical oversight role of the financial reporting process and financial statements, management ultimately has responsibility for the company's financial statements." The paragraph goes on to outline how the safe harbors could be applied and we support this approach.

The paragraph that follows states:

"We request your comments on whether we should adopt these proposed liability "safe harbors" to cover the information disclosed under the proposed amendments. Is a safe harbor necessary?"

Although management is responsible for the financial statements, with review provided by the independent auditor, the expanded role of the audit committee could be misinterpreted as more than an oversight process. The safe harbor language is essential to the goals of frank and honest communication. If audit committee members are concerned about capricious litigation, it could have the unintended effect of making them less effective. Moreover, given the importance of having the very best people serve on the audit committee, anything that acts as a deterrent to full participation would not further the interests of better financial controls and disclosure.

Therefore, our position is that safe harbors (as described in the second paragraph of Section III.E) should be applied to all required disclosures.

I appreciate this opportunity to comment.

Sincerely,



Attachments: Two (2) additional copies

cc: Ms. Sherry Boothe ✓
Audit and Attest Standards
File 228
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

ARTHUR ANDERSEN

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December 6, 1999

Arthur Andersen LLP

Ms. Sherry Boothe
Audit and Attest Standards
File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

33 West Monroe Street
Chicago IL 60603-5385

Dear Ms. Boothe:

We are pleased to comment on the proposed amendments to Statement on Auditing Standards (SAS) No. 61, "Communication with Audit Committees," and SAS No. 71, "Interim Financial Information," which are the Auditing Standards Board's (ASB's) response to the recommendations of the Blue Ribbon Committee (BRC) on the Effectiveness of Corporate Audit Committees.

We are generally supportive of the efforts of the Blue Ribbon Committee and amendments proposed by the ASB. We believe the amendments proposed by the ASB will have a positive effect on the financial reporting process. Many have viewed Generally Accepted Accounting Principles (GAAP) as giving companies the freedom to operate within generally accepted ranges. Historically, a company operating within the range of GAAP, or the accounting "fairway," is considered acceptable because by definition, no place on the fairway is of higher quality than any other point. Our experience indicates that most faulty financial reporting started out on the fairway but veered out of bounds over time. Looking at the direction of a company's reporting could provide an indication of potentially faulty reporting in the future. Discussion of reporting quality with the audit committee can identify potential problems before they occur, particularly when those discussions occur on a quarterly basis. Although generally supportive of the ASB's proposal, we suggest that the ASB clarify certain items, as discussed below.

SAS 61

We believe that the ASB has made improvements to the original recommendation suggested by the BRC, in particular the deletion of the terms aggressive and conservative. However, we still have some concerns with the proposal. We believe that management, audit committees and auditors need a common framework for assessing reporting quality. Absent that framework, there is a risk that the players will talk past each other with competing definitions of reporting

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Ms. Sherry Boothe

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quality. We understand that the development of this framework will not be easy and will take some time. As a result, we support the ASB's current proposal as logical first step in the process. We strongly encourage the ASB and the Financial Accounting Standards Board (FASB) to provide further guidance in the future regarding an objective quality reporting framework. Once this framework is developed, we believe that the prohibition on communicating this discussion in writing should be deleted, as further discussed below.

With regard to the current wording of the proposal, we are also troubled that the proposal does not distinguish "quality" from "preferability." We suggest that the ASB address this issue in the final rules. At a minimum, we believe the ASB should add a footnote to the word "quality" that explains that "quality" does not carry the same meaning as "preferability," as the latter is used in Accounting Principles Bulletin No. 20.

The ASB acknowledges that "objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting measurements and disclosures." For this reason, the ASB prohibits the auditor from communicating this quality discussion in writing. We agree that a written communication should never take the place of the discussion with the audit committee. The intent of the BRC's recommendation was to encourage an open and frank discussion regarding the subjective nature of a company's financial reporting. This could not be achieved through a one-way written communication. Nevertheless, we are troubled by a prohibition on summarizing the nature of the discussion in writing after the meeting has occurred. We foresee audit committees requesting such a summary and believe it would place auditors in an awkward position to refuse such a request. In addition, if a framework were developed by the ASB and FASB in the future, we believe this prohibition should be deleted altogether. We also suggest that a sentence be added to the proposal instructing the auditor to carefully review any minutes or other writings resulting from the meeting prepared by the audit committee or management to ensure that the writings are consistent with the auditors' understanding of what was communicated.

While the ASB attempted to provide examples of matters to be discussed with audit committees, we observe that many of these examples are matters already required to be discussed with audit committees. The current text of AU Section 380 requires discussion with audit committees concerning the selection of accounting policies, estimates and judgements. It is unclear whether the ASB had something different in mind by repeating these aspects of the required communication. In addition, we also note that proposed wording of the amendment discusses the "consistency of the entity's accounting information contained in the financial statements" twice. It is unclear whether the ASB had two different thoughts in mind, whether it was emphasizing consistency or whether the repetition was an oversight. We suggest that each of these items be clarified in the final amendment.

ARTHUR ANDERSEN

Ms. Sherry Boothe
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November 3, 1999

The ASB's proposal indicates that the quality reporting discussion would generally include management as an active participant. However, the wording proposed by the ASB could be interpreted to mean that the auditor should not have this discussion privately with the audit committee if the Committee so requests. We agree that that the ideal approach is to involve management, auditors and the audit committee in the discussion. The interaction of all the parties helps to assure that all relevant information is considered in the discussion. However, we see no basis for refusing a request by an audit committee to have this discussion without management. In fact, there may be circumstances where it is appropriate to conduct this discussion privately. We do not believe that the auditing profession is in a position to tell the audit committee how to execute their responsibility. As a result, we recommend that the ASB delete this sentence or clarify in the final amendment that auditors are not precluded from having this discussion privately with the audit committee.

SAS 71

We agree with the general concept of auditors communicating with audit committees prior to the public release of interim results and prior to the filing of interim results with a regulator agency (e.g. Form 10-Q filed with the SEC). We would like to point out, however, that this practice is inconsistent with the current requirement regarding communications for annual audit results. In fact, paragraph 4 of AU Section 380 specifically states that auditors are not required to communicate the results of the audit with the audit committee prior to the filing of the financial statements. We recommend that ASB require this communication with the audit committees prior to the filing of the annual financial statements and prior to the public release of the annual results. In fact, given the higher level of assurance associated with the annual audited information, it would seem to be even more important to communicate with audit committees prior to the release of annual information.

We would be please to discuss any of our comments with you or your staff at your convenience. If you have any questions, please contact Dorsey Baskin at 312-931-2238.

Very truly yours,

Arthur Andersen L.L.P.

December 14, 1999

File Ref. Nos. 1120
2280

To the Auditing Standards Board:

Here are the comment letters received to date on the proposed Statement on Auditing Standards, Amendments to *Statement on Auditing Standards No. 61, Communication with Audit Committees*, and *Statement on Auditing Standards No. 71, Interim Financial Information*.

<u>Name/Affiliation</u>	<u>Location</u>
30. Jacob A. Azar, CPA, Chairman Massachusetts Society of Certified Public Accountants, Inc.	Boston, MA
31. Loretta V. Cangialosi Pfizer Inc.	New York, NY
32. Margaret M. Foran Michael J. Holliday Kathleen A. Weigand American Society of Corporate Secretaries, Inc.	New York, NY
33. Susan Koski-Grafer Financial Executives Institute	Morristown, NJ
34. KPMG LLP	New York, NY
35. Kathy A. Asbeck Corning Incorporated	Corning, NY

If you have any questions, please call me at 212/596-6026.

Sincerely,



Kim Gibson
Technical Manager
Audit and Attest Standards

Enclosures

cc: Audit Committee Effectiveness Task Force

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

ISO9001 Certified

November 30, 1999

Sherry Boothe
Audit and Attest Standards – AICPA
File 2280
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft Proposed Statement on Auditing Standards – “Amendments to SAS No. 61 and No. 71”

Dear Ms. Boothe:

The Accounting Principles and Auditing Procedures Committee is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committee consists of over thirty members who are affiliated with public accounting firms of various sizes, from sole proprietorships to international “big five” firms, as well as members in both industry and academia. The Committee has reviewed and discussed the above-mentioned Exposure Draft. The views expressed in this comment letter are solely those of the Committee and do not reflect the views of the organizations with which the Committee members are affiliated.

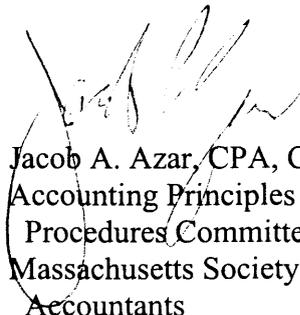
In response to the proposed amendments to SAS No. 61, we have concerns regarding the use of the word “quality” within this document and the proposed requirements that we speak to a degree of quality of accounting principles applied. The acceptability of accounting principles applied in accordance with generally accepted accounting principles is not subject to a quality assessment. We already have guidelines pertaining to possible alternatives under GAAP, and that entities should follow “preferable” methods of GAAP if there is more than one alternative. In other words, GAAP is GAAP and any principle applied, which is outside of the scope of generally accepted accounting principles is, in fact, not acceptable.

November 30, 1999

In regards to the requirement under the proposed amendments to SAS No. 71, we have significant concern over the possible misinterpretation as to the scope of the quarterly review required under SAS No. 71. Additionally, we suggest that consideration be given to the additional costs to the registrant resulting from such meetings, keeping in mind that these communications are already required under SAS No. 61 on an annual basis. Finally, we have concern in regards to the time constraints placed upon the proposed quarterly communications and suggest that the requirements that such communications take place before the press release puts undue pressure on the process of timely issuance of quarterly information.

We appreciate the opportunity to present our comments and thank you for your consideration.

Very truly yours,



Jacob A. Azar, CPA, Chairman
Accounting Principles and Auditing
Procedures Committee
Massachusetts Society of Certified Public
Accountants

#31

Corporate Finance
Pfizer Inc
235 East 42nd Street
New York, NY 10017-5755
Tel 212 573 3222 Fax 212 338 1815
Email loretta.v.cangialosi@pfizer.com



November 30, 1999

AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Loretta Cangialosi
Vice President and Controller
Accounting Services

Attention: Ms. Sherry Boothe
Audit and Attest Standards

Re: File 2280

Ladies and Gentlemen:

Thank you for allowing Pfizer the opportunity to respond to the Proposed Statement on Auditing Standards "Amendments to SAS 61, *Communication with Audit Committees* and SAS 71, *Interim Financial Information*."

Pfizer is a research-based global pharmaceutical company that discovers, develops, manufactures, and markets innovative medicines for humans and animals. For 1998, total revenues and assets exceeded \$13 billion and \$18 billion, respectively.

Part 1 *Communication with Audit Committees* - While our comments in the attached response will more completely express our views, in summary, we do not support the recommendations contained in Part 1 concerning communications with the audit committee. We believe strongly that the auditor's judgments should be restricted to issues of 'acceptability.' However, in recognition of the concerns expressed by the SEC and the AICPA, we have proposed an alternative solution that would permit the auditor to hold these proposed discussions, but only under certain very restrictive circumstances.

Part 2 *Interim Financial Information* - We support the recommendations contained in Part 2 concerning interim financial statements, and have, in fact, already instituted such a process for Pfizer's interim financial statements.

We would be happy to discuss our views with your staff.

Respectfully,

Loretta V. Cangialosi
Vice President and Controller
Pfizer Inc
Enclosure (1)

cc: Mr. David Shedlarz

Pfizer Inc
Response to the Auditing Standards Board regarding the
Exposure Draft on Proposed Statement on Auditing Standards
“Amendments to SAS 61, *Communication with Audit Committees* and SAS 71, *Interim
Financial Information*”

Part 1 – Communication with Audit Committees

Following are the recommendations contained in this part of the proposed Statement on Auditing Standards (SAS):

Auditor’s Judgments About the Quality of the Entity’s Accounting Principles: In connection with each SEC engagement the auditor should discuss with the audit committee the auditor’s judgments about the quality, not just the acceptability, of the entity’s accounting principles as applied in its financial reporting. Since the primary responsibility for establishing an entity’s accounting principles rests with management, the discussion generally would include management as an active participant. The discussion should include such matters as the consistency of application of the entity’s accounting policies and the clarity, consistency, and completeness of the entity’s accounting information contained in the financial statements and related disclosures. The discussion should also include items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information included in the financial statements. Examples of items that may have such impact are the following:

- Selection of new or changes to accounting policies
- Estimates, judgments and uncertainties
- Unusual transactions
- Accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded

The discussion should be tailored to the entity’s specific circumstances, including accounting applications and practices not explicitly addressed in the accounting literature, for example, those that may be unique to an industry. Objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity’s accounting measurements and disclosures. Given this lack of objective criteria and to facilitate an open and frank discussion, the auditor’s judgments should not be communicated in writing. As a result, the auditor need only document in the working papers that the discussion has taken place, the date of the discussion, and the participants.

General

We note that management is responsible for the fair presentation of the financial statements and while that the auditor is responsible for expressing an opinion on the fair presentation of the financial statements taken as a whole. We are generally concerned with proposals that threaten this division of established responsibility. As such, we believe that continues to be appropriate for auditors to be restricted to issues that affect fair presentation only; in other words, issues of ‘acceptability.’

However, we understand and agree with the concerns expressed by the Chairman of the Securities and Exchange Commission - that there are registrants who abuse, and have abused, acceptable accounting and disclosure practices even within the confines of Generally Accepted Accounting Principles (GAAP). It is with respect to those concerns that we appreciate the motivation behind this proposed SAS.

Notwithstanding those motives, we also know that there is no evidence that suggests that 'audit failures' result from acceptable accounting principles being applied in a company's financial reporting. Absent fraud, audit failures occur as a result of unacceptable accounting principles being applied in a company's financial reporting. For this reason, we believe that the auditors should focus their efforts on issues of 'acceptability.'

Further, while the proposed SAS would require that these conversations become a part of the routine audit process, we believe that these conversations should deal with abuse only. The recommendations of the Auditing Standards Board (ASB or the Board) unnecessarily compromise the division of responsibility between management and the auditor. We believe that, except under the most restrictive of circumstances, the auditor should focus his attention on matters of acceptability and allow management to focus on policy.

Concerns about inherent subjectivity

The proposed SAS requires a discussion about the "quality, not just the acceptability" of accounting principles as applied in the company's financial reporting. Discussions about the 'quality' of anything are, by nature, highly judgmental. These conversations would be inherently subjective and variable.

We believe that the ASB recognizes, to a degree, this fact, as it states that "objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting measurement and disclosures." We believe that the ASB hasn't developed objective criteria because it simply cannot be done. The content and nature of these discussions will depend on the facts and circumstances of each individual situation and will likely be highly influenced by the personalities and experiences of the auditor and the members of the audit committee. These concerns, coupled with the fact that management is responsible for the fair presentation of the financial statements, cause us to believe that these conversations, as envisioned by the proposed SAS, are inappropriate.

Equally disturbing to us is the fact that in response to these concerns and difficulties about subjectivity, the ASB has concluded, "the auditor's judgments should not be communicated in writing." Moreover, on October 6, 1999, the Securities and Exchange Commission proposed rules that would require companies to include in their proxy statements a report from the audit committee to state that the committee is not aware of any material modifications to the financial statements that are necessary. We believe that this approach of oral communication will only serve to make the required communications mysterious in addition to variable and inappropriate.

Concerns about management's authority

As stated, we are generally and increasingly concerned about proposals that threaten management's authority over the financial statements. While this authority is bounded by GAAP, there is still tremendous decision-making latitude inherent in a set of financial statements— from

the selection of accounting policies to the development of estimates and assumptions that affect reported amounts and disclosures. This is clearly identified in the 'summary of significant accounting policies' included in the footnotes to financial statements. Management bears this responsibility and must be free to exercise it. In fact, no one else is in a better position to make these decisions.

Even assuming that the auditor has deemed management's decisions 'acceptable,' and that the auditor can render a clean opinion, the proposed SAS would require the auditor to take an additional step, and render another annual opinion (to the audit committee) about the "quality" of management's decisions. These 'routine conversations' will serve to undercut the authority of management and to further triangulate the audit process even in situations where there is no documented abuse. This routine challenge to management's authority is not necessary or prudent.

Alternative Proposal

As we see it, there are two competing objectives that must be achieved: (1) safeguard management's authority over the financial statements and (2) safeguard high quality financial reporting. To accomplish both objectives, we believe that the auditor's judgments about the quality of management's decision should be rendered to the audit committee only in the most egregious of circumstances—that is, circumstances in which there is a compelling, documented history of abuse. As such, these conversations should not be held as a routine part of the audit. Further, we recommend that, when and if such conversations take place, the auditor be required to present these judgments in writing.

A requirement that the judgments be presented in writing will put tremendous pressure on the auditor to ensure that those judgments that are communicated to the audit committee are fully supported by the most objective means available. Before communicating negative judgments about the quality of management's decisions, the auditor will have to ensure that there is compelling evidence of a recurring pattern of 'poor quality' decision-making. And, that such a pattern can be documented. Further, we believe that the requirement of a written document will ensure that the judgments of a sole auditor will not prevail. The documentation will have to be sufficient to convince the primary engagement team as well as the concurring partner.

While we understand that the ASB wants to encourage open and frank discussion, we want to ensure that such discussions are particularly focused on substantively abusive cases and that the conversations, if held, are serious, deliberate, supported, and put in writing.

Our objectives in placing such judgments into written form are to ensure that these communications are not impulsive and to protect management, the auditor and the audit committee from any misunderstandings in the future about what was communicated and when. This assurance will become especially important if the SEC approves its recently proposed rules that will require the audit committee to communicate in writing to the shareholders that discussions have taken place with the auditor.

Conclusion

Based on the above, we cannot support the provisions of Part 1 *Communications with Audit Committees* as presented. Management must maintain its clear responsibility for the financial

statements, within the confines of GAAP, and auditors should be restricted to matters of acceptability only, which is their assigned role under SAS No. 1. Conversations about the 'quality' of management's decisions should not become a routine aspect of the audit process because of the detrimental impact such conversations will have on the actual and perceived authority of management over the financial statements.

The impact of the proposal as drafted will have the auditors become de facto advisors to the audit committee on what are the appropriate acceptable policies that should be followed by the company. This contemplated role is clearly outside the boundaries of what an auditor has been engaged to do. We refer to AU Section 110.02 which states that "[m]anagement is responsible for adopting sound accounting policies ..." and "[t]he independent auditor may make suggestions about the form or content of the financial statements... based on information from management's accounting system. However, the auditor's responsibility for the financial statements he has audited is confined to the expression of his opinion on them." We also concerned about the proposal usurping the ability of management to select practices if audit committees attempt to limit liability or limit potential negative discussions by having the auditors select the policies to be used in the preparation of the financial statements. Please understand that we are not attempting to be alarmist in this regard as we have heard of law firms advising audit committees to not accept any waived adjustments in order to avoid any Staff Accounting Bulletin No. 99 issues.

We believe that such conversations should only occur only in cases where there is a compelling history of abuse. Further, if and when the conversations do occur, they should be documented in writing for the protection of management, the auditor and the audit committee.

Part 2 – Interim Financial Information

Following are the recommendations contained in this part:

When the accountant has conducted the review prior to the entity's filing of the interim financial information with a regulatory agency (such as the SEC), he or she should attempt to make such communications with the audit committee, or at least its chairman, and a representative of financial management prior to such filing. If the entity intends to release interim financial information in a public announcement prior to such filing, the accountant should attempt to make such communications prior to such public announcement. If such communications are not made prior to the public announcement or filing, as applicable, they should be made as soon as practicable in the circumstances.

We agree with the proposal as presented and, in fact, have already adopted a similar policy at Pfizer.

AMERICAN SOCIETY OF CORPORATE SECRETARIES, INC.

521 Fifth Avenue
New York, New York 10175

#32

December 8, 1999

AICPA

1211 Avenue of the Americas

New York, NY 10036-8775

E-mail address: sboothe@aicpa.org

Attention: Sherry Boothe

Audit and Attest Standards

Re: Proposed Amendments to Statement on Auditing Standards No. 61,
Communication With Audit Committees, and Statement on Auditing
Standards No. 71, *Interim Financial Information* (October 1, 1999)
File 2280

Ladies and Gentlemen:

The Securities Law Committee of the American Society of Corporate Secretaries (the "Society") is pleased to provide comments to the AICPA on its proposed amendments to SAS 61 and SAS 71 (the "Proposal"). The Society, with more than 4,000 members, represents over 2,700 public companies. We believe that our members, who serve as the interface between management, the company's directors and its shareholders, are in a unique position to provide insight and discerning perspectives on the issues raised in the Proposal.

The Proposal arises out of the Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees ("BRC Recommendations"), and are part of a three-pronged approach for implementation by the AICPA, the Securities and Exchange Commission, and stock exchanges.

The Proposal, plus the separate, companion rule proposals of the Commission and the stock exchanges, represent an ambitious undertaking to implement the BRC Recommendations. The general stated objective to make audit committees more effective is one that the Society and its members can support. Our comments are directed to how to best accomplish that objective.

1. SAS 61 - Communication with Audit Committees.

The proposal would add a requirement that the auditor discuss the following information relating to the auditor's judgments about the "quality," not just the acceptability, of the company's accounting principles with the audit committee, including matters such as:

- a. consistency of application of accounting policies
- b. clarity, consistency and completeness of the accounting information contained in the financial statements and related disclosures
- c. items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information included in the financial statements, including, for example:
 - i. selection of new or changes to accounting policies
 - ii. estimates, judgments and uncertainties
 - iii. unusual transactions
 - iv. accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded

Auditors would be prohibited from communicating in writing the above judgments. The discussion would be documented in the audit working papers.

The Society does not oppose specificity about items to be discussed by the auditors with the audit committee, provided that the items are related to the application of accounting principles to the company's financial reporting, and have an objective meaning with established standards. For example, the Society agrees with discussion about:

- consistency of application of accounting policies
- consistency and completeness of accounting information
- the following items where they have a significant effect on the financial statements:
 - selection of new or changes to accounting policies
 - estimates, judgments and uncertainties
 - unusual transactions
- accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded

The Society, however, strongly opposes the requirement to discuss the "quality" not just the acceptability of the company's accounting principles. Generally Accepted Accounting Principles ("GAAP") is the historically recognized standard for Generally

Accepted Auditing Standards and financial statement reporting . The Proposal would introduce "quality" and other theoretical concepts that were intended to be tools to guide the Financial Accounting Standards Board in developing accounting and reporting standards.* The concepts have no established objective standards. The AICPA itself recognizes in the Proposal that there are no objective criteria for "quality." In fact, in part because of the lack of criteria, the Proposal prohibits the auditor from communicating its judgments about "quality" in writing. In light of this, there can be no valid basis to subject companies and their audit committees to a requirement to discuss, and possibly be subject to, claims that they are responsible for, non-existent standards for financial statements. This aspect of the Proposal, if adopted, can only have the effect of creating potential litigation and liability, and discouraging qualified directors from serving on audit committees.

Accordingly, we urge that the words "the auditor's judgments about the quality, not just the acceptability, of" and the terms "clarity," "representational faithfulness," and "neutrality" be deleted from proposed subsection .11 of SAS 61 (AU sec. 380.11). Finally, if the above changes are made, the last three sentences of proposed subsection .11, dealing with the lack of objective criteria and the prohibition on written communications, would appear unnecessary and can be deleted.

2. SAS 71 - Interim Financial Information.

SAS 71 would be amended to require* the auditors to have the SAS 61 discussions (presently required only for annual audits) in connection with a review of interim financials. Specifically,

- a. SAS 61 Discussion. The auditor would have to communicate to the audit committee, or be satisfied through discussions with the audit committee that management communicated to the committee, matters described in SAS 61 that have been identified in the conduct of the interim financial review.

We generally support the proposal requiring a discussion of SAS 61 information that has been identified related to interim financial statements, but only if the content and extent of the SAS 61 information does not expand beyond the current Proposal modified

* Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information (May 1980).

* We note that SAS 71 as proposed to be amended appears to require auditor review prior to filing the Form 10-Q (or 10-QSR), only if any SAS 61 items are identified. In other words, if the company chooses to have its auditors do a SAS 61 review for the interim financial statements as well as the annual financials, then the auditors would be required to attempt to have a SAS 71 discussion prior to filing the form 10-Q. However, if the SEC's companion proposals (Release No. 34-41987; October 7, 1999) are adopted as proposed, SEC-reporting companies would be required to have the SAS 71 discussion/review prior to filing the Form 10-Q (or 10-QSB).

in accordance with our comments above, including elimination of the requirement to discuss the "quality" of accounting principles.

We believe that such discussions can be helpful in ensuring that quarterly financial statements are reliable and credible. Interim reviews also can relieve some of the burden and time pressure of the year-end audit, as auditors will already be conversant with many of the significant issues expected to arise on the year-end audit.

Many of our larger corporate members already engage in SAS 61 type discussions with their auditors in connection with their interim financial statements. For those companies, the proposed SAS 71 requirement for interim SAS 61 discussions should not introduce any significant cost increases or other burdens.

In addition, we understand that the major accounting firms are in most cases now requiring such reviews as a condition to acceptance of new audit engagements. Thus, for many companies, the proposal will not add significantly to the burden and expense of auditor reviews. For those companies whose auditors do not now perform SAS 61-type reviews on interim financial statements, it should be recognized that the requirement will add additional cost and delays in release of interim financial statements.

In trying to devise a proposal that would provide the benefits of interim discussions without unduly burdening those companies who presently do not have such a procedure, we believe the best approach would be to defer the effectiveness of the proposed amendment to SAS 71 to interim periods in fiscal years ending on or after December 15, 2001. Earlier application should, of course, be permitted and recommended. This would allow one year for the companies to develop procedures, schedule audit committee meetings, establish internal review timetables, and make the other necessary arrangements to implement the new requirements. In any event, the currently proposed effective date would apply to first calendar quarter 2000 interim financial statements for calendar year companies, a very tight time period under the best of circumstances. Finally, the AICPA should consider an exemption or extended phase-in period for small businesses.

- b. Timing of Interim Financial Review Discussions. The auditor would be required to attempt to discuss the SAS 61 matters with the audit committee or at least the committee chairperson, and a representative of financial management, prior to the filing of the Form 10-Q and, if possible, prior to a public announcement of interim financial results.

We support the principles that the independent auditor have timely access to the audit committee, or at least the chair of the committee, and company financial management to discuss SAS 61 matters identified with respect to interim financial statements prior to filing the Form 10-Q or 10-QSB. We have some concerns, however, with the proposed amendment to SAS 71, particularly as it applies to public announcements of interim results.

With respect to SAS 61 discussions prior to public announcement of results, we believe that some of our larger company's members already have such discussions. The new requirement would not impose any significant burden or delay on them. With respect to other companies, the requirement could lead to delays in earnings releases which work to the disadvantage of investors and create the conditions under which inadvertent leaks may occur. While it is preferable to have the audit committee discussions prior to release of earnings, it may not be practicable for some companies for a variety of reasons. Among other things, many companies may not have their full financial statements completed at the time they announce earnings. The Society proposes that the requirement regarding discussions prior to public announcement be modified to be a recommended best practice, and that SAS 61 clarify that companies are not required to delay the timing of their earnings releases or take on additional burdens in order to have the discussion with the audit committee (or chair) prior to the release of earnings.

The Society appreciates this opportunity to comment on the Proposal. Please let us know if you have any questions on our views.

Sincerely,

/s/ MARGARET M. FORAN

Margaret M. Foran
Chair
Securities Law Committee

/s/ MICHAEL J. HOLLIDAY

Michael J. Holliday
Co-Chair
Corporate Audit Committee Task Force

/s/ KATHLEEN A. WEIGAND

Kathleen A. Weigand
Co-Chair
Corporate Audit Committee Task Force

#33

**FINANCIAL EXECUTIVES
INSTITUTE**

December 10 1999

Sherry Boothe
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: File 2280

Dear Ms. Boothe:

The Committee on Corporate Reporting (CCR) of the Financial Executives Institute appreciates the opportunity to respond to the Exposure Draft, Proposed Statement on Auditing Standards Amendments to Statement on Auditing Standards No. 61, Communication With Audit Committees, and Statement on Auditing Standards No. 71, Interim Financial Information. FEI has long been a supporter of high quality financial reporting and of informed and vigilant audit committees.

CCR has two general comments with regard to the exposure draft. First, it is difficult to assess the necessity of the actions this ED proposes because any subsequent review of effectiveness will be virtually impossible. While the Blue Ribbon Committee ("BRC") made no case to establish a causal relationship between the problem and the proposed solution, CCR believes that the Auditing Standards Board (ASB), as the auditing governing body, should have a higher justification standard for issuing new procedures. The ASB has an obligation to issue only relevant standards.

Consider, for example, the proposal to have the auditor attempt to discuss with the audit committee the matters described in SAS No. 61 prior to the filing of the Form 10-Q or, if applicable, prior to a public announcement of interim financial reporting. For this to be a relevant standard, one needs to believe that a reason audit committees are ineffective is that auditors are aware of information about material misstatements of interim financial information and that they choose to keep it from the audit committee or are prohibited from bringing it to them. CCR is hard pressed to believe that either scenario is a prevalent problem that necessitates this solution. If the real issue is that some auditors may lack the independence to surface material problems within the communication framework in existing auditing standards or lack the competence to distinguish material from immaterial issues, then a different solution is required. Again, the exposure draft requires more transparency into the ASB's notions of how this proposal accomplishes the objective of improved governance set out by the BRC.

10 Madison Avenue, P.O. Box 1938, Morristown, New Jersey 07962-1938 (973) 898-1600

The second general comment relates to mandating best practices in a one-size-fits-all approach. Our experience is that audit committees, as committees of the board of directors, have virtually unlimited authority to request information from management and the auditors. For example, if an audit committee felt it was important to its charter to have every audit difference over a dollar reported to it, then it is clearly within its power to do so. Promulgating standards which force reporting of information not otherwise requested serves purposes other than improving the audit committee function.

Some of the proposals in the ED, such as an annual three-way discussion of the quality of the financial reporting, would likely find a consensus as a best practice. Other items may not find that consensus. If you view, as we do, that the audit committee's role is to provide oversight of the control framework that leads to quality financial reporting, then it should be up to the audit committee to determine the communication with the independent auditor best suited for its circumstances. For example, take the case of the aforementioned interim financial reporting. If the audit committee is concerned about interim misstatements, then it is clearly within their purview to require meetings with the auditors prior to public release of information. If the audit committee views the risks as low due to their assessment of the control environment, then how does requiring communication possibly meet the cost benefit threshold the ASB claims to apply to standard setting.

Our detailed responses on specific issues raised in the ED are discussed below.

Limiting the Scope of the Amendments to Audits of SEC Clients

CCR disagrees with the limitation of this standard to SEC registrant engagements only. Foremost, it seems inappropriate to withhold whatever value is created by CPA firms through this standard from the boards of client companies that are not registrants. Secondly, it is unclear to us how users, especially non-owners, of audited financial statements will be able to discern what an audit opinion stands for if auditing standards differ based on who provides capital.

Requiring Discussion of Quality of Accounting Practices with Audit Committee

It is CCR's position that the marketplace will decide what communications are necessary in any specific circumstance, especially when the audit committee has unlimited authority to request information. However, we agree that a discussion between management, the auditor and the audit committee is a best practice that should be encouraged. We especially appreciate that the ASB modified the original BRC proposal to include management in such a discussion. We believe that the ASB should define quality and explicitly distinguish this communication from a preferability option.

Prohibiting Written Communication

Prohibiting Written Communication

While CCR definitely feels that written communication should not be mandated, we are curious as to how the effectiveness of audit committees is enhanced by prohibiting auditors from responding to a request from audit committees to document their views. Distinguishing between a written communication and documentation of an oral communication in meeting minutes seems slight at best. Presumably an important takeaway from the contemplated discussion is whether the quality of accounting decisions change over time. In periods of audit committee member turnover some audit committees may deem it desirable to maintain a written record in order to make such an assessment.

Audit Committee Communication Prior to Release of Interim Financial Information

For the reasons indicated above, CCR strongly opposes making such a communication mandatory. While still questioning its necessity given the authority vested in audit committees and existing auditing standards on management fraud, CCR would not object to the amendment were it changed to require communication only when required adjustments to interim financial information were not reflected. We suggest that the ASB perform further research as to the likelihood of false positive conclusions from such a communication given the limited scope of interim reviews.

* * * * *

The CCR committee member that coordinated this response is Stephen F. Reeves of The Black & Decker Corporation. Should you have any questions, please contact him at (410) 716-2118.

Sincerely,



Susan Koski-Grafer
Vice President - Technical Activities

#34

December 9, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

We are pleased to comment on the American Institute of Certified Public Accountant's (AICPA) proposed amendments to Statement on Auditing Standard No. 61 (SAS 61), *Communication with Audit Committees* and Statement on Auditing Standards No. 71 (SAS 71), *Interim Financial Information*.

We commend the AICPA and the Blue Ribbon Committee for their efforts to enhance the effectiveness of audit committees. Our goals as independent auditors and the goals of audit committees are closely aligned – quality financial reporting for the benefit of investors and other stakeholders. We are highly supportive of the current audit committee initiatives and believe many of the proposals will result in stronger audit committees, benefits to shareholders and an enhanced audit profession.

Generally we support the proposed amendments; specific comments are included in the attachment to this letter.

KPMG is committed to enhancing the effectiveness of audit committees and has launched the KPMG Audit Committee Institute to help management and directors understand the evolving issues relating to corporate governance and the audit committee function. We will be pleased to discuss our comments, if you have any questions on these or other matters related to this issue. Please contact Andy Capelli at (212) 909-5474.

Very truly yours,

KPMG LLP

Amendment to SAS 61, *Communication with Audit Committees*.

We concur with the proposed amendment and believe that it addresses the spirit of the Blue Ribbon Committee recommendations. We agree that such communication should be oral, and not written, to facilitate an open and frank exchange of views between management, the audit committee and the auditor. Further, due to the subjectivity of the matter, each auditor needs to clarify that the assessments represent their own personal views.

We suggest that the AICPA consider including in the final amendment a modification to paragraph .13 of SAS 61. The paragraph currently states: "The auditor should discuss with the audit committee any major issues that were discussed with management in connection with initial or recurring retention of the auditor including, among other matters, any discussions regarding the application of accounting principles and auditing standards." This implies that management acted on its own to engage the auditors. In light of recent proposed exchange rules requiring charters that specify auditor accountability to the audit committee, consideration should be given to amending this paragraph to indicate that the audit committee or the board of directors, and not management, is responsible for the selection, evaluation and retention or replacement of the auditors.

Amendment to SAS 71, *Interim Financial Information*.

We concur with this proposed amendment. We agree that the results of the interim review procedures should drive the form, content and timing of the auditors communications with the audit committee. Matters of significance should be brought to the attention of the audit committee prior to the filing of Form 10-Q and ideally prior to any earnings release.

Sherry Boothe
Audit and Attest Standards
File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

CORNING

Dear Ms. Boothe,

I have reviewed the Exposure Draft of a proposed Statement on Auditing Standards titled *Amendments to Statement on Auditing Standards No. 61, Communication With Audit Committees*, and *Statement on Auditing Standards No. 71, Interim Financial Information*, and appreciate the opportunity to present my views. While I support some of the proposed changes, I do have reservations about others.

Open and honest communication between management, the audit committee and the auditor is undeniably important to the financial reporting process. As such, I support the proposed changes to SAS 61 as I believe it will encourage continued open communication between management, the audit committee and the auditor. I also believe that this level of communication currently exists in most large companies today. Additionally, I agree that it is important that the discussion as to the quality, not just the acceptability, of the financial reporting *not* be in writing. Requiring such communication to be done in writing may create boilerplate presentations that would not promote open and frank discussions.

Timely and accurate quarterly results are unquestionably important to investors. I do support the proposed SEC requirement for a SAS 71 review to be performed quarterly for public companies. However, I disagree with the ASB proposal that the auditor should discuss with the audit committee the results of such a review prior to the filing of the form 10 Q, or the release of financial information to the public. I believe strongly that management is responsible for the financial statements and the overall control environment and that the role of the audit committee is one of oversight. Management is also responsible for the release of earnings and I believe it is the discretion of each audit committee to determine its level of comfort with management's processes. I do not think it is the role of the audit profession to mandate audit committee involvement in quarterly financial reporting.

There are also logistical obstacles related to this particular proposal. As companies strive to minimize the time between financial closing and public announcement of results, this proposal could result in extending this time period. Extending this time and/or sharing financial information with outside directors at non-company locations introduces security concerns over that information shared.

That said, I emphatically support the idea that the outside auditor should have unrestricted access to the audit committee and its chairman. In certain situations, the company may desire to discuss material transactions or complex accounting issues with the outside auditors. If management and the outside auditors do not agree on the accounting treatment for these situations, the outside auditor should have free access to the audit committee or the chair of the audit committee to discuss such differences of opinion. However, the need and timing of these discussions should be at the discretion of management, the audit committee, and the outside auditor.

If you would like to discuss any of these comments further, please call me at (607) 974-8242.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathy Asbeck". The signature is written in a cursive, flowing style.

Kathy A. Asbeck



California
Society
Certified
Public
Accountants

December 7, 1999

Ms. Sherry Boothe
Audit and Attest Standards, File 2280
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

**Reference: Exposure Draft, Proposed Statement on Auditing Standards
Amendments to Statements on Auditing Standards Nos. 61 & 71**

Dear Ms. Boothe:

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (AP&AS Committee) has discussed the above referenced exposure draft and has comments on it.

The AP&AS Committee is the senior technical committee of our state society. The Committee is composed of 39 members, of whom 12 percent are from national CPA firms, 53 percent are from local or regional firms, 18 percent are sole practitioners in public practice, 8 percent are in industry and 3 percent are in academia.

It is the opinion of the Committee that the statement should not be issued. The Committee believes that SAS's 61 and 71 in their present form provide adequate guidance. The Committee also believes that the action expected by the SEC in response to the Blue Ribbon Committee's recommendations further obviates the need for the proposed amendment.

Should the Auditing Standards Board feel compelled to issue the proposed amendment, the Committee believes that the following points should be addressed:

- Part 1, paragraph 11 of the draft speaks of the "quality" of an entity's accounting principles. The Committee had trouble defining quality in the context of accounting principles and felt that absent further guidance, the intended goal of this amendment might not be achieved.

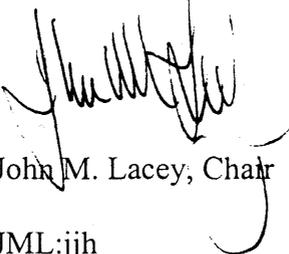
- Part 1 of the draft also discusses documentation. It is unclear to the AP&AS Committee if the auditor is precluded from documenting the full text of their discussion with the audit committee. Some AP&AS Committee members felt that it was not in the best interest of the practitioner to preclude documentation of the topics and recommendations discussed.

Ms. Sherry Boothe
AICPA
December 7, 1999
Page 2

Thank you for the opportunity to comment on this proposed statement. Please let us know if you have any questions or require additional information.

Very truly yours,

Accounting Principles and Auditing
Standards Committee

A handwritten signature in black ink, appearing to read "John M. Lacey". The signature is stylized and somewhat cursive, with a large loop at the end.

John M. Lacey, Chair

JML:jjh

AMERICAN SOCIETY OF
A S C S
CORPORATE SECRETARIES

December 8, 1999

AICPA
1211 Avenue of the Americas
New York, NY 10036-8775
E-mail address: sboothe@aicpa.org
Attention: Sherry Boothe
Audit and Attest Standards

Re: Proposed Amendments to Statement on Auditing Standards No. 61, *Communication With Audit Committees*, and Statement on Auditing Standards No. 71, *Interim Financial Information* (October 1, 1999)
File 2280

Ladies and Gentlemen:

The Securities Law Committee of the American Society of Corporate Secretaries (the "Society") is pleased to provide comments to the AICPA on its proposed amendments to SAS 61 and SAS 71 (the "Proposal"). The Society, with more than 4,000 members, represents over 2,700 public companies. We believe that our members, who serve as the interface between management, the company's directors and its shareholders, are in a unique position to provide insight and discerning perspectives on the issues raised in the Proposal.

The Proposal arises out of the Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees ("BRC Recommendations"), and are part of a three-pronged approach for implementation by the AICPA, the Securities and Exchange Commission, and stock exchanges.

The Proposal, plus the separate, companion rule proposals of the Commission and the stock exchanges, represent an ambitious undertaking to implement the BRC Recommendations. The general stated objective to make audit committees more effective is one that the Society and its members can support. Our comments are directed to how to best accomplish that objective.

1. SAS 61 - Communication with Audit Committees.

The proposal would add a requirement that the auditor discuss the following information relating to the auditor's judgments about the "quality," not just the acceptability, of the company's accounting principles with the audit committee, including matters such as:

- a. consistency of application of accounting policies
- b. clarity, consistency and completeness of the accounting information contained in the financial statements and related disclosures
- c. items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information included in the financial statements, including, for example:
 - i. selection of new or changes to accounting policies
 - ii. estimates, judgments and uncertainties
 - iii. unusual transactions
 - iv. accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded

Auditors would be prohibited from communicating in writing the above judgments. The discussion would be documented in the audit working papers.

The Society does not oppose specificity about items to be discussed by the auditors with the audit committee, provided that the items are related to the application of accounting principles to the company's financial reporting, and have an objective meaning with established standards. For example, the Society agrees with discussion about:

- consistency of application of accounting policies
- consistency and completeness of accounting information
- the following items where they have a significant effect on the financial statements:
 - selection of new or changes to accounting policies
 - estimates, judgments and uncertainties
 - unusual transactions
- accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded

The Society, however, strongly opposes the requirement to discuss the "quality" not just the acceptability of the company's accounting principles. Generally Accepted Accounting Principles ("GAAP") is the historically recognized standard for Generally Accepted Auditing Standards and financial statement reporting. The Proposal would introduce "quality" and other theoretical concepts that were intended to be tools to guide the Financial Accounting Standards Board in

developing accounting and reporting standards.* The concepts have no established objective standards. The AICPA itself recognizes in the Proposal that there are no objective criteria for “quality.” In fact, in part because of the lack of criteria, the Proposal prohibits the auditor from communicating its judgments about “quality” in writing. In light of this, there can be no valid basis to subject companies and their audit committees to a requirement to discuss, and possibly be subject to, claims that they are responsible for, non-existent standards for financial statements. This aspect of the Proposal, if adopted, can only have the effect of creating potential litigation and liability, and discouraging qualified directors from serving on audit committees.

Accordingly, we urge that the words “the auditor’s judgments about the quality, not just the acceptability, of” and the terms “clarity,” “representational faithfulness,” and “neutrality” be deleted from proposed subsection .11 of SAS 61 (AU sec. 380.11). Finally, if the above changes are made, the last three sentences of proposed subsection .11, dealing with the lack of objective criteria and the prohibition on written communications, would appear unnecessary and can be deleted.

2. SAS 71 - Interim Financial Information.

SAS 71 would be amended to require* the auditors to have the SAS 61 discussions (presently required only for annual audits) in connection with a review of interim financials. Specifically,

- a. SAS 61 Discussion. The auditor would have to communicate to the audit committee, or be satisfied through discussions with the audit committee that management communicated to the committee, matters described in SAS 61 that have been identified in the conduct of the interim financial review.

We generally support the proposal requiring a discussion of SAS 61 information that has been identified related to interim financial statements, but only if the content and extent of the SAS 61 information does not expand beyond the current Proposal modified in accordance with our comments above, including elimination of the requirement to discuss the “quality” of accounting principles.

We believe that such discussions can be helpful in ensuring that quarterly financial statements are reliable and credible. Interim reviews also can relieve some of the burden and time pressure of the year-end audit, as auditors will already be conversant with many of the significant issues expected to arise on the year-end audit.

* Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information (May 1980).

* We note that SAS 71 as proposed to be amended appears to require auditor review prior to filing the Form 10-Q (or 10-QSR), only if any SAS 61 items are identified. In other words, if the company chooses to have its auditors do a SAS 61 review for the interim financial statements as well as the annual financials, then the auditors would be required to attempt to have a SAS 71 discussion prior to filing the form 10-Q. However, if the SEC’s companion proposals (Release No. 34-41987; October 7, 1999) are adopted as proposed, SEC-reporting companies would be required to have the SAS 71 discussion/review prior to filing the Form 10-Q (or 10-QSB).

Many of our larger corporate members already engage in SAS 61 type discussions with their auditors in connection with their interim financial statements. For those companies, the proposed SAS 71 requirement for interim SAS 61 discussions should not introduce any significant cost increases or other burdens.

In addition, we understand that the major accounting firms are in most cases now requiring such reviews as a condition to acceptance of new audit engagements. Thus, for many companies, the proposal will not add significantly to the burden and expense of auditor reviews. For those companies whose auditors do not now perform SAS 61-type reviews on interim financial statements, it should be recognized that the requirement will add additional cost and delays in release of interim financial statements.

In trying to devise a proposal that would provide the benefits of interim discussions without unduly burdening those companies who presently do not have such a procedure, we believe the best approach would be to defer the effectiveness of the proposed amendment to SAS 71 to interim periods in fiscal years ending on or after December 15, 2001. Earlier application should, of course, be permitted and recommended. This would allow one year for the companies to develop procedures, schedule audit committee meetings, establish internal review timetables, and make the other necessary arrangements to implement the new requirements. In any event, the currently proposed effective date would apply to first calendar quarter 2000 interim financial statements for calendar year companies, a very tight time period under the best of circumstances. Finally, the AICPA should consider an exemption or extended phase-in period for small businesses.

- b. Timing of Interim Financial Review Discussions. The auditor would be required to attempt to discuss the SAS 61 matters with the audit committee or at least the committee chairperson, and a representative of financial management, prior to the filing of the Form 10-Q and, if possible, prior to a public announcement of interim financial results.

We support the principles that the independent auditor have timely access to the audit committee, or at least the chair of the committee, and company financial management to discuss SAS 61 matters identified with respect to interim financial statements prior to filing the Form 10-Q or 10-QSB. We have some concerns, however, with the proposed amendment to SAS 71, particularly as it applies to public announcements of interim results.

With respect to SAS 61 discussions prior to public announcement of results, we believe that some of our larger company's members already have such discussions. The new requirement would not impose any significant burden or delay on them. With respect to other companies, the requirement could lead to delays in earnings releases which work to the disadvantage of investors and create the conditions under which inadvertent leaks may occur. While it is preferable to have the audit committee discussions prior to release of earnings, it may not be practicable for some companies for a variety of reasons. Among other things, many companies may not have their full financial statements completed at the time they announce earnings. The Society proposes that the requirement regarding discussions prior to public announcement be modified to be a recommended best practice, and that SAS 61 clarify that companies are not required to delay the timing of their earnings releases or take on additional burdens in order to have the discussion with the audit committee (or chair) prior to the release of earnings.

The Society appreciates this opportunity to comment on the Proposal. Please let us know if you have any questions on our views.

Sincerely,



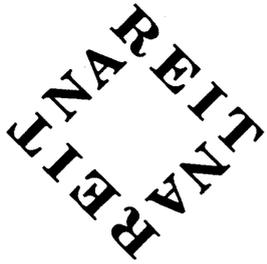
Margaret M. Foran
Chair
Securities Law Committee



Michael J. Holliday
Co-Chair
Corporate Audit Committee Task Force



Kathleen A. Weigand
Co-Chair
Corporate Audit Committee Task Force



December 15, 1999

Ms. Sherry Boothe
Audit and Attest Standards
File 2280
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

NATIONAL
ASSOCIATION
OF
REAL ESTATE
INVESTMENT
TRUSTS*

Re: File No. 2280; Proposed Statement on Auditing Standards,
Amendments to SAS Nos. 61 and 71

Dear Ms. Boothe:

The National Association of Real Estate Investment Trusts (NAREIT) is pleased to have the opportunity to respond to the AICPA's proposed Amendments to Statements on Auditing Standards Nos. 61 and 71 (the Proposal). NAREIT is the national trade association for REITs and publicly traded real estate companies. Members include real estate investment trusts (REITs) and other businesses that develop, own, operate, and finance income-producing real estate, as well as those firms and individuals who advise, study, and service these businesses.

General Comments

NAREIT agrees with all of those involved in implementing the proposals of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (the BRC) that a vigilant and informed audit committee is essential to ensure both investor protection and investor confidence. The Proposal suggests certain amendments to SAS Nos. 61 and 71 in response to the BRC's recommendations and related proposals of the Securities and Exchange Commission and the major stock exchanges. Below are NAREIT's specific comments on the Proposal.

Comments Regarding Proposed Amendments to SAS No. 61

Auditor's Judgements About the Quality of a Company's Accounting Principles

The Proposal would require that the auditor discuss with the audit committee the auditor's judgements about the quality, not just the acceptability, of an SEC client's accounting principles. The understandings of certain criteria, which may be used in making these judgements, are relatively simple and clear. These include consistency, clarity, completeness and verifiability. Other criteria such as neutrality and representational faithfulness may not be clearly understood by auditors, management or audit committee members. This represents a radical change from previous practice.

• • •

1875 Eye Street, NW, Suite 600, Washington, DC 20006-5413

Phone 202-739-9400 Fax 202-739-9401 www.nareit.com

For over fifty years, accounting professionals, including both financial managers and auditors, have generally operated under the notion that accounting principles used by a company are acceptable if they are consistent with Generally Accepted Accounting Principle (GAAP). In addition, many believe that the U.S. capital markets are the most efficient in the world, in large part because of the quality of U.S. financial reporting. We are concerned that, until a common framework for assessing reporting quality is established by standard setters, conversations between auditors and audit committees about the quality of acceptable accounting principles may be confusing and dysfunctional.

Therefore, we urge the AICPA to delay the requirement for auditors to communicate their judgements about the quality of a company's accounting principles until a common framework for assessing this quality is established and understood by management, auditors and audit committee members. If this requirement for the auditor to discuss a client's accounting principles is included in a final standard, we would suggest that it only require the auditor to discuss alternative accounting treatments in a neutral manner—not assessing the relative quality of alternative principles.

Prohibition Against Written Auditor/Audit Committee Communication

The proposal prohibits auditors from communicating in writing the auditor's judgements about the quality of a company's accounting principles. We believe that it is appropriate to base conversations between auditors and audit committees on written communications.

Therefore, we suggest that the amendment to SAS No. 61 prohibit the use of "solely" written communications. It should require discussions between auditors and audit committees "in addition to" any written communications.

Comments Regarding Proposed Amendments to SAS No. 71

Although we support an SEC requirement that registrants engage their outside auditors to conduct a SAS 71 review of interim financial information prior to the company's filing of its quarterly Form 10-Q, we do not support the Proposal's requirement that the accountant of an SEC client "attempt" to discuss with the audit committee the matters described in SAS No. 61 prior to filing or announcing interim information. Because of the time pressures involved with quarterly reporting, we believe that this "attempt," or even a phone conversation between management, auditors and the audit committee chair, will devolve into a superficial review and discussion. Worse, we are concerned that this superficial process will become a substitute for a more substantive conversation between the auditor and the full audit committee regarding interim financial reports. In addition, we are concerned about a standard containing the vagueness of a notion of an auditor **attempting** to have discussions with audit committees.

Accordingly, we urge the AICPA to eliminate from its Proposal the requirement that an auditor of an SEC client "attempt" to have discussions with the audit committee prior to the filing or otherwise releasing interim financial information. We recommend that the standard require that the auditor communicate appropriate findings from their SAS 61 review with the full audit committee at its next subsequent meeting.



Ms. Sherry Boothe
December 15, 1999
Page 3

Conclusion

NAREIT fully supports the efforts of all parties to enhance the effectiveness of corporate audit committees and thanks the AICPA for the opportunity to comment on its proposed amendments to SAS Nos. 61 and 71. Please contact me at (484) 530-1888 or George Yungmann, NAREIT's Senior Advisor, Financial Standards, at (202) 739-9432 if you have any questions regarding this letter.

Sincerely,

Handwritten signature of Timothy A. Peterson in cursive script, followed by a vertical line and the initials 'TAP'.

Timothy A. Peterson
Executive Vice President and Chief Financial Officer, Keystone Property Trust
Co-Chair, NAREIT Accounting Committee



Meritor Automotive, Inc.
2135 West Maple Road
Troy, MI 48084-7186

1



November 24, 1999

Jonathan G. Katz, Secretary
U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Proposed Rule Changes - Audit Committees
File No. SR-NYSE-99-39 and File No. S7-22-99

Dear Mr. Katz:

Meritor Automotive, Inc. ("Meritor") submits the following comments in the files referenced above. Meritor's Common Stock, \$1 par value, is listed on the New York Stock Exchange and registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Meritor files periodic reports and proxy statements pursuant to Sections 13 and 14 of the Exchange Act.

File No. SR-NYSE-99-39 – Proposed Rule Change Amending Audit Committee Requirements of Listed Companies

In response to recommendations issued in February 1999 by the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (the "Blue Ribbon Committee"), The New York Stock Exchange, Inc. (the "Exchange") has proposed an amendment to Section 303 of its Listed Company Manual. Section 303 contains audit committee requirements applicable to companies with securities listed on the Exchange, including Meritor. The amendment, in general terms, would require each audit committee to have a written charter containing specified provisions; each audit committee member to be independent, as defined, and financially literate; and at least one audit committee member to have financial or accounting expertise.

Meritor supports the purposes and goals of the Blue Ribbon Committee's recommendations and the Exchange's proposed amendment. We agree that standards and guidelines for audit committees help to promote quality financial reporting and constitute an essential part of good corporate governance. In particular, we believe that

requirements with respect to independence and financial knowledge of audit committee members are necessary and entirely appropriate. Meritor's board of directors gave substantial weight to these attributes in selecting the current members of its audit committee.

However, we believe that one of the Exchange's proposals (which corresponds with Blue Ribbon Committee recommendation number 7) may be interpreted to impose additional obligations and potential liabilities on audit committees. Meritor is concerned with the proposed requirement that the audit committee's written charter specify that the audit committee is responsible for "ensuring" the independence of the company's auditors. On this subject, we concur with the position stated by Deloitte & Touche LLP, Meritor's independent auditor, in its comment letter submitted in this file on November 3, 1999.

We agree that the audit committee should review any relationships and transactions between the company and its auditors that may affect their independence. The audit committee should also be responsible for obtaining an independence letter from the company's auditors, in accordance with ISB Standard No. 1. However, in our view, the burden of ensuring independence should fall on the auditors themselves and should not be transferred to any other party in the audit process. We believe that the committee should be entitled to reasonably rely on the representations and disclosures made by the company's auditors as to their independence, and should not be compelled to ensure that those representations and disclosures are correct. We respectfully request that the final wording of Section 303 of the Listed Company Manual be modified accordingly to clarify that the audit committee's role is to monitor or oversee the independence of the outside auditor.

File No. S7-22-99 – Proposed Rule on Audit Committee Disclosure

In response to the recommendations of the Blue Ribbon Committee, the Securities and Exchange Commission (the "Commission") also issued rule proposals that would require certain disclosures on the functioning of audit committees of Exchange Act reporting companies, including Meritor. The stated purpose of the proposed rules would be "to promote investor confidence in the integrity of the financial reporting process . . .," among other things. Again, Meritor supports the Commission's efforts in improving disclosure in this area. However, we also have concerns with certain specific provisions of the proposed rules.

1. *Negative Assurance – Blue Ribbon Committee Recommendation No. 9.* The proposed rules would require that a company's proxy statement include a report of the audit committee containing specified elements. Among other things the report would be required to include a statement by the audit committee whether, based on its review of the financial statements and discussions with management and the independent auditors, anything has come to the committee's attention that has caused it to believe that the audited financial statements contain an untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the

circumstances under which they were made, not misleading. The release proposing the rule amendments also suggested various alternative forms of assurance and requested comment on these alternatives.

The Commission noted in the proposing release that “[e]ffective oversight of the financial reporting process is fundamental to preserving the integrity of our markets. Audit committees can, and should, be the corporate participant best able to perform that oversight function.” Similarly, the Blue Ribbon Committee recognized that the audit committee’s role is “clearly one of oversight and monitoring.”

We agree that the audit committee’s role is to oversee and monitor the integrity of the financial reporting process. We also believe that requiring the proposed assurances, in any form, would expand the scope of the audit committee’s responsibilities beyond the boundaries of oversight, and would require the committee to give “comfort” on the substance of the financial statements. This role, we believe, is better left to the accountants. Further, any such requirement could be a significant disincentive to audit committee service, as a result of the potential for increased liability as well as the increased workload. Accordingly, we respectfully suggest that this aspect of the proposed rules not be adopted, in any form.

2. *Location of Information with respect to the Audit Committee - Blue Ribbon Committee Recommendation No. 5.* The Commission proposed that specific information with respect to the audit committee be included in any proxy statement relating to the election of directors and is seeking comments as to whether this would be the appropriate place for the disclosure in question. We believe that it would be more meaningful to include this information in proximity to the company’s audited financial statements. As a result, we respectfully suggest that the required disclosure be contained in the company’s Form 10-K or, alternatively, incorporated into the Form 10-K from the Annual Report to Shareholders.

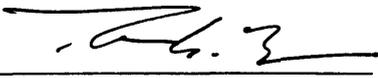
The proposed rules would also require that a company include a copy of the audit committee charter as an appendix to the proxy statement at least once every three years. We believe that this proposal, if adopted, would increase printing and mailing costs in an amount that may be disproportionate to the level of investor interest, while at the same time failing to provide interested investors with current information. We respectfully suggest that the audit committee charter instead be filed as an exhibit to the Form 10-K each year, with any interim amendment being filed as an exhibit to the next Form 10-Q. In this manner, the audit committee charter would be readily available to interested parties on the SEC’s website, or upon request to the company, on a more current basis than that in the proposed rule, but at less expense to the company. Alternatively, if the Commission ultimately determines that proxy statement presentation is required, Meritor respectfully suggests that a summary of the charter be included rather than appending the charter in its entirety.

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
November 24, 1999
Page 4

Meritor appreciates the opportunity to express its views on the proposed rules of the Exchange and the Commission. If you have any questions with respect the foregoing, you can contact the undersigned at 248/435-5504 or, in my absence, Vernon G. Baker, II, at 248/435-0786, David W. Greenfield at 248/435-7708 or Bonnie Wilkinson at 248/435-0762.

Sincerely,

MERITOR AUTOMOTIVE, INC.

By: 
Thomas A. Madden
Senior Vice President
And Chief Financial Officer

cc: The New York Stock Exchange, Inc.
Attention: Richard A Grasso, Chairman
and Chief Executive Officer

✓ Auditing Standards Board
American Institute of Certified Public Accountants
Attention: Deborah D. Lambert, Chair

Ira M. Millstein, Co-Chairman of the Blue Ribbon Committee
John C. Whitehead, Co-Chairman of the Blue Ribbon Committee

Meritor Automotive, Inc.
2135 West Maple Road
Troy, MI 48084-7186

#2



November 26, 1999

Jonathan G. Katz, Secretary
U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Proposed Rule Changes - Audit Committees
File No. SR-NYSE-99-39 and File No. S7-22-99

Dear Mr. Katz:

The Audit Committee of Meritor Automotive, Inc. ("Meritor") submits the following comments in the files referenced above. Meritor's Common Stock, \$1 par value, is listed on the New York Stock Exchange and registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Meritor files periodic reports and proxy statements pursuant to Sections 13 and 14 of the Exchange Act.

File No. SR-NYSE-99-39 – Proposed Rule Change Amending Audit Committee Requirements of Listed Companies

In response to recommendations issued in February 1999 by the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (the "Blue Ribbon Committee"), The New York Stock Exchange, Inc. (the "Exchange") has proposed an amendment to Section 303 of its Listed Company Manual. Section 303 contains audit committee requirements applicable to companies with securities listed on the Exchange, including Meritor. The amendment, in general terms, would require each audit committee to have a written charter containing specified provisions; each audit committee member to be independent, as defined, and financially literate; and at least one audit committee member to have financial or accounting expertise.

Meritor's Audit Committee supports the purposes and goals of the Blue Ribbon Committee's recommendations and the Exchange's proposed amendment. We agree that standards and guidelines for audit committees help to promote quality financial reporting and constitute an essential part of good corporate governance. In particular, we believe that requirements with respect to independence and financial knowledge of audit

committee members are necessary and entirely appropriate. Meritor's Board of Directors gave substantial weight to these attributes in selecting the current members of Meritor's Audit Committee.

However, we believe that one of the Exchange's proposals (which corresponds with Blue Ribbon Committee recommendation number 7) may be interpreted to impose additional obligations and potential liabilities on audit committees. We are concerned with the proposed requirement that the audit committee's written charter specify that the audit committee is responsible for "ensuring" the independence of the company's auditors. On this subject, we concur with the position stated by Deloitte & Touche LLP, Meritor's independent auditor, in its comment letter submitted in this file on November 3, 1999.

We agree that an audit committee should make inquiry regarding and review any relationships and transactions between the company and its auditors that may affect their independence. The audit committee should also be responsible for obtaining an independence letter from the company's auditors, in accordance with ISB Standard No. 1. However, in our view, the burden of ensuring independence should fall on the auditors themselves and should not be transferred to any other party in the audit process. We believe that an audit committee should reasonably be entitled to rely on the representations and disclosures made by the company's auditors as to their independence, and should not be compelled to ensure that those representations and disclosures are correct. Taken to the extreme that litigious plaintiffs' bar is readily capable of, this requirement, if retained, could in effect cause audit committees to have to retain outside experts to make an appropriate investigation and advise the committee as to whether the independent auditors are in fact independent. We can readily see an entire new specialty being created, at substantial and unnecessary expense, were this requirement to be retained. We respectfully request that the final wording of Section 303 of the Listed Company Manual be modified accordingly to clarify that the audit committee's role is to monitor or oversee the independence of the outside auditor.

File No. S7-22-99 – Proposed Rule on Audit Committee Disclosure

In response to the recommendations of the Blue Ribbon Committee, the Securities and Exchange Commission (the "Commission") also issued rule proposals that would require certain disclosures on the functioning of audit committees of Exchange Act reporting companies, including Meritor. The stated purpose of the proposed rules would be "to promote investor confidence in the integrity of the financial reporting process . . .," among other things. Again, Meritor's Audit Committee supports the Commission's efforts in improving disclosure in this area. However, we also have concerns with certain specific provisions of the proposed rules.

1. *Negative Assurance – Blue Ribbon Committee Recommendation No. 9.* The proposed rules would require that a company's proxy statement include a report of the audit committee containing specified elements. Among other things the report would be required to include a statement by the audit committee whether, based on its review

of the financial statements and discussions with management and the independent auditors, anything has come to the committee's attention that has caused it to believe that the audited financial statements contain an untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading. The release proposing the rule amendments also suggested various alternative forms of assurance and requested comment on these alternatives.

The Commission noted in the proposing release that "[e]ffective oversight of the financial reporting process is fundamental to preserving the integrity of our markets. Audit committees can, and should, be the corporate participant best able to perform that oversight function." Similarly, the Blue Ribbon Committee recognized that the audit committee's role is "clearly one of oversight and monitoring."

We agree that an audit committee's role is to oversee and monitor the integrity of the financial reporting process. We also believe that requiring the proposed assurances, in any form, would expand the scope of the audit committee's responsibilities beyond the boundaries of oversight, and would require the committee to give "comfort" on the substance of the financial statements. This role, we believe, is better left to the accountants. Further, any such requirement could be a significant disincentive to audit committee service, as a result of the potential for increased liability as well as the increased workload. Again, we are mindful of the plaintiffs' bar's penchant for frivolous litigation and see no substantive difference whether positive or negative assurance be provided by the audit committee. A committee conscientious in performing its duties would, were this requirement to be retained, have to consider again retaining other accounting experts to help it review the work of the independent auditors to see whether the committee responsibly could reasonably provide negative (or positive) assurance. Accordingly, we respectfully suggest that this aspect of the proposed rules not be adopted, in any form.

2. *Location of Information with respect to the Audit Committee - Blue Ribbon Committee Recommendation No. 5.* The Commission proposed that specific information with respect to the audit committee be included in any proxy statement relating to the election of directors and is seeking comments as to whether this would be the appropriate place for the disclosure in question. We believe that it would be more meaningful to include this information in proximity to the company's audited financial statements. As a result, we respectfully suggest that the required disclosure be contained in the company's Form 10-K or, alternatively, incorporated into the Form 10-K from the Annual Report to Shareholders.

The proposed rules would also require that a company include a copy of the audit committee charter as an appendix to the proxy statement at least once every three years. We believe that this proposal, if adopted, would not only increase printing and mailing costs in an amount that may be disproportionate to the level of investor interest, while at the same time failing to provide interested investors with current

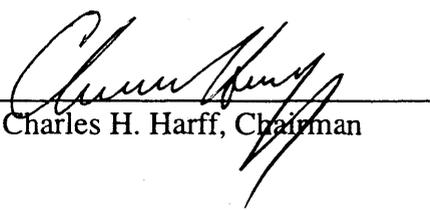
information, but also, and more importantly, would continue the ever increasing amount of information required to be included in proxy statements, with the unfortunate yet foreseeable result that fewer and fewer investors find the information sufficiently useful to read proxy statements. We respectfully suggest that the audit committee charter instead be filed as an exhibit to the Form 10-K each year, with any interim amendment being filed as an exhibit to the next Form 10-Q. In this manner, the audit committee charter would be readily available to interested parties on the SEC's website, or upon request to the company, on a more current basis than that in the proposed rule, but at less expense to the company. Alternatively, if the Commission ultimately determines that proxy statement presentation is required, Meritor's Audit Committee respectfully suggests that a summary of the charter be included rather than appending the charter in its entirety.

We appreciate the opportunity to express our views on the proposed rules of the Exchange and the Commission. If you have any questions with respect the foregoing, you can contact the undersigned at 412/565-2059.

Sincerely,

MERITOR AUTOMOTIVE, INC.
AUDIT COMMITTEE

By: _____


Charles H. Harff, Chairman

cc: The New York Stock Exchange, Inc.
Attention: Richard A Grasso, Chairman
and Chief Executive Officer

✓ Auditing Standards Board
American Institute of Certified Public Accountants
Attention: Deborah D. Lambert, Chair

Ira M. Millstein, Co-Chairman of the Blue Ribbon Committee
John C. Whitehead, Co-Chairman of the Blue Ribbon Committee

#3 (P)

Richard E. Staedtler
33 North Braintree Common
Langhorne, PA 19053

October 4, 1999

Mr. Ira Millstein
Senior Partner
c/o Paula Lowitt, Esq.
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153-0119

Re: Audit Committee Issues

Dear Mr. Millstein:

I am the chief financial officer of Castle Energy Corporation (Nasdaq:CECX), a small public company engaged in the business of exploration and production of oil and gas. I recently reviewed the suggestions made by the Blue Ribbon Committee - especially those affecting the timely filing of quarterly reports. Attached is a realistic comparison of the review requirements to file a Form 10-Q a year ago and those currently being proposed. The net effect of the proposed requirements is that it will be virtually impossible to file on a timely basis because of the additional procedures being contemplated. Even if all review procedures are completed as planned at least 51 days will probably be required to file 10-Q, given the added review requirements. The inevitable result will be that chief financial officers and controllers have to close the books based on estimates in order to allow sufficient time for the multiple reviews being proposed. More reporting companies will probably extend filing five days. The probability of mistakes resulting from using estimates or from the time pressure caused by these new requirements is, in my opinion, greater than the probability that the proposed multiple reviews will uncover mistakes.

In short, I urge you to reconsider your proposals. While some of these proposals appear meritorious per se, it will become virtually impossible to meet the additional review requirements being imposed and still to file on a timely basis. The combined burden resulting from not only all of the Blue Ribbon Committee's recommendations but also other already existing burdens must be considered rather than simply evaluating each recommendation alone.

As I reviewed the list of Blue Ribbon Committee members, I noticed that all members except perhaps one were not financial officers who prepare quarterly statements. My guess is that none of the committee members has been subject to the same requirements they seek to impose on others. I hope this is an oversight and that the Blue Ribbon Committee will include several chief financial officers or controllers who currently prepare financials and must work under the increasingly stressful and unrealistic review requirements imposed on them.

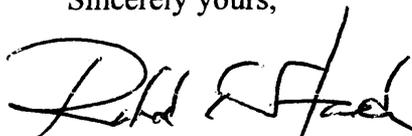
Mr. Ira Millstein
Senior Partner
October 4, 1999
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I also noticed that the Blue Ribbon Committee members included two senior executives of large accounting firms. While I do not question their expertise in determining how long the firms require to review and clear a Form 10-Q, I question their knowledge of the procedures and time needed to compile and draft Form 10-Q. Auditors audit or review financial statements - they do not and most have never prepared them. In addition, auditors benefit significantly from the new procedures since additional fees will be charged for quarterly reviews. As a result, auditors have a conflict of interest concerning many of the proposed recommendations. The argument that the increased quarterly fees will be offset by a corresponding decreased annual fee is specious; whereas some of the less costly audit procedures (procedural tests, tests of recorded balances, etc.) may be reduced at year end, the costly parts of the review and audit - partner review, second partner review, tax review, legal letters, management letters, checklists, etc. are repeated four times instead of once. Expectation of no fee increase under such a scenario is quixotic at best.

While I do not dispute the Blue Ribbon Commission's attempt to strengthen review procedures for quarterly filings, I do believe that the proposed procedures, if implemented, would cause more mistakes than they discover. While such procedures may be followed in filing Form 10-K within 90 days they cannot practically be followed in filing Form 10-Q within 45 days. One of the justifications for the new proposed procedures is that such procedures will lessen the frequency of amending quarterly earnings. I have no problem with the concept. The problem is that the good are punished with the evil. Many justifying examples cited were audit failures - not failures to review. Companies that have not restated quarterly earnings for the last five years should not be subjected to mandatory quarterly review procedures.

I look forward to your response.

Sincerely yours,



Richard E. Staedtler

RES/sp

cc: Arthur Levitt, Chairman
Securities and Exchange Commission
450 5th Street, NW
Washington, D.C. 20549

Richard A. Grasso
Chairman & CEO
New York Stock Exchange
Eleven Wall Street
New York, New York 10005

Mr. Ira Millstein
Senior Partner
October 4, 1999
Page 3

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Office of the Chief Accountant
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401 Merritt 7
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Norwalk, CT 06856-5116

American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775
Attn: Audit Committee Relationship

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Stamford, CT 06902

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Blue Ribbon Committee on Audit
Committees
The Center for Board Leadership
1215 17th Street, NW, Suite 402
Washington, D.C. 20036

The Honorable Arlen Specter
711 Hart Building
Washington, DC 20510

The Honorable Rick Santorum
120 Russell Building
Washington, DC 20510

Comparison of Current and Proposed Review Requirements

	<u>Days Required After End of Each quarter</u>	
	<u>A Year Ago</u>	<u>Proposed</u>
1. Obtain production information to close books (1)	34	34
2. Consolidate financials	2	2
3. Draft 10-Q (2)	2	2
4. Audit schedules (3)		2
5. Simultaneous review by management, legal counsel and auditors (2)	3	
6. Separate reviews:		
Management and legal counsel		3
Auditors - first partner (4)		4
Auditors - second partner (5)		1
7. Audit Committee review (6)		
8. Audit Committee and auditor review (6)		2
9. Edgarization	<u>1</u>	<u>1</u>
10. Total used	42	51
11. Extra (deficient) days	<u>3</u>	<u>(6)</u>
12. Total to file	<u>45</u>	<u>45</u>

- (1) Most of Castle's oil and gas well interests are non-operated. As a result, Castle is dependent on timely production and revenue/expense data received from operators. Most of these data are received 30-34 days after the month of production. Most operators, many of whom are not public companies, are not required to provide the needed information for 30-34 days. Most will not provide it sooner because they are also trying to run their monthly revenue and joint interest billings. Hiring several people to call operators to obtain needed production information 3-4 days earlier would probably fail because the operators are also busy preparing their quarterly reports and would often not be able to respond and because there is no obligation to do so. Furthermore, attempting to estimate non-operated data only 3-4 days before such data are available makes no sense and because there is no obligation to do so.

As a result, one of the major effects of the proposed new requirements is that the financial statements become estimates (since we cannot wait another 4-5 days, if we expect to file timely).

- (2) Form 10-Q disclosure requirements have also increased significantly recently. Market risk, Y2K, and prospective accounting principles disclosures have added at least 10% more work to Form 10-Q.

Previously, management, legal counsel, and the auditors all reviewed a single draft simultaneously. Because of the proposed proliferation of reviewers and the increased probability of minor changes, each proposed reviewer, especially the auditors, will want the final copy to review, i.e., they will want a draft reflecting the comments of all the other reviewers. The resulting sequential reviews will literally involve most of my time for 6-10 days as each reviewer reviews not only the original draft 10-Q but also the other reviewers' comments thereto. Furthermore, most reviewers have other jobs. Often they will not be available on the earliest day I can get them a draft 10-Q or on the day that another reviewer completes his review. The possibility of schedule conflicts becomes greater as more and more reviewers are mandated. For example, the probability of having management, legal counsel and a single partner from the audit firm available is much greater than the probability of having management, the Audit Committee, legal counsel, and two partners (engagement partner and second partner) from the audit firm available. The audit partners are typically involved in multiple Form 10-Q reviews at quarter end - not just that of my company.

- (3) If an SAS #71 review is required, it will take at least two days to prepare the schedules (rollforwards, analytical review, etc.) required by the auditors. Additional efforts will also be needed to prepare legal letters and management representation letters for the auditors and to follow up to make sure the legal letters are returned in 5-6 days - a period much shorter than that demanded by most legal firms. If there is new litigation, a much longer response could be required.
- (4) The audit review does not consist of one partner reviewing the 10-Q and related schedules. Audit firms were hierarchical when I was at Price Waterhouse and they appear to remain so today. Currently a staff or senior will typically foot and vouch schedules, a manager will review the staff or senior's work and conduct the review of more difficult areas and a partner will review the draft 10-Q and related workpapers. If any accounting issues arise, second partners, industry partners and national office partners may be consulted. If further explanation or work is need, such tasks will typically be delegated - often down to the lowest private in the chain of command. In short, all or most of the full chain of command is often used to conduct the review. In addition, tax partners are often called upon to review tax implications. The net result is that it is virtually impossible to accomplish a timely review when the complete chain of command from private to general is involved despite the best of intentions. The SAS #71 review requirements being contemplated by the SEC will result in the mobilization of the complete auditing chain of command when there is not sufficient time for such complete chain of command. Delays will be inevitable given the number of auditors now involved in the review and the related probability that each reviewer's time schedule cannot be changed to accommodate the 10-Q review procedures of any single company. Review will involve much more than simply the review of a draft 10-Q by one firm partner or manager.
- (5) I believe most if not all auditors now require second partner reviews for Form 10-Q. This often requires 1-2 more days as the second partner, often new to the account, frequently asks historical questions requiring much background work. Often this involves review of transactions and related accounting issues that occurred years ago. While there may be sufficient time for such dual review at year end there is simply not sufficient time during the clearance of quarterly financials.

- (6) The Blue Ribbon Panel proposes that the auditor discuss each quarterly report with the Audit Committee or the Chairman thereof and management. This is also time consuming because a) it is unlikely that the Audit Committee can all meet when the auditors are ready and b) the auditors and Audit Committee live far apart and are often unavailable due to other job requirements. In addition, the Blue Ribbon Committee recommends that the Audit Committee state whether it believes the financial statements are in accordance with generally accepted accounting principles and expects the Audit Committee to be able to discuss the financial statements on a level approaching that of the auditors. This requirement is naive. If the Audit Committee wants to achieve this level of proficiency it will have to review the financial statements and schedules to at least the same degree as the auditors. This would require days. Many Audit Committee members do not want to conduct such a level of review nor should they be required to do so if the auditors have done so. The Audit Committee's main functions do not include determination of generally accepted accounting principles and application thereof. They assign this task to the experts - the auditors! The Audit Committee's function is to make sure a competent review is undertaken - not to conduct the review themselves. If these recommendations are instituted, the result could be that the Audit Committee hires additional auditors to determine for it whether generally accepted accounting principles have been followed.