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2000

## Comment letters on proposed Statement on Auditing Standards: Omnibus Statement on Auditing Standards – 2000

American Institute of Certified Public Accountants. Auditing Standards Board

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Rec'd 5/26/00

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# Hughes, Snell & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

May 19, 2000

Ms. Jackie Walker  
Audit and Attest Standards, File 3733  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: Comments to proposed revisions in the Omnibus Statement on Auditing Standards

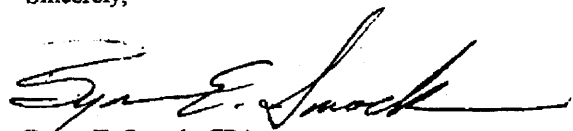
Dear Ms. Walker:

A brief introduction, I am the manager of the accounting and auditing division of our firm here in Ft. Myers, Florida. We would like to take a brief moment to respond to the Proposed (Omnibus) Statement on Auditing Standards which would be making changes in SAS 75, AU Section 543, SAS 58, and SAS 84.

We support the AICPA's changes as proposed to SAS 75, AU Section 543, SAS 58, and SAS 84 as written. We are of the opinion that these changes make sense and provide clarification on a number of issues. Keep up the good work.

If you have any questions please do not hesitate to call me.

Sincerely,



Byron E. Smock, CPA

June 6, 2000

Jackie Walker  
Audit and Attest Standards  
File 3733  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Walker:

The Accounting and Auditing Committee of the Maryland Association of Certified Public Accountants reviewed the exposure draft, *Omnibus Statement on Auditing Standards—2000*. Our comments are as follows:

*Amendment to SAS No. 75, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement--*  
The Committee agreed with the proposed changes. We believe it will clarify the standards to be used in agreed-upon procedures.

*Amendment to AU 543, Part of Audit Performed by Other Independent Auditors--*  
The Committee agreed with the proposed changes.

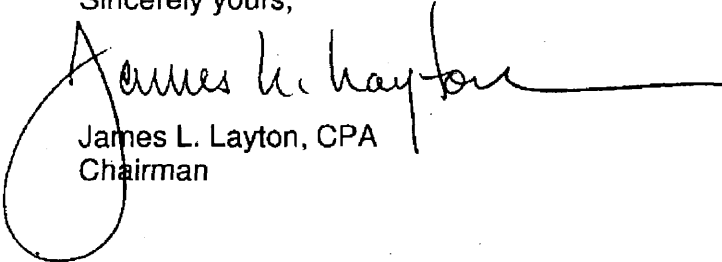
*Amendment to SAS No. 58, Reports on Audited Financial Statements—*  
The Committee accepted the idea of including the country of origin of the accounting principles and auditing standards in the audit report. The Committee stated that these changes should be extended to SSARS and the effective dates should coincide. However, the Committee would prefer a simpler change such as, "generally accepted accounting principles as accepted [or as practiced] in the United States". We would like to avoid changing "GAAP" or "GAAS" terminology, which is widely used and understood. Other suggestions include "US GAAP" or "US GAAS".

*Amendment to SAS No. 84, Communications Between Predecessor and Successor Auditors—*

The Committee agreed that communication should occur with the CPA engaged to perform the prior audit, even if the audit was not completed, to satisfy due diligence requirements in AU315.09. However, the Committee does not believe this CPA should be considered the predecessor auditor. There was great concern that the successor auditor may incorrectly rely on incomplete work of the previous CPA. Accordingly, the subsequent requirements of AU315 should not apply to the previous CPA.

We appreciate the opportunity to provide input into the standards setting process.

Sincerely yours,

A handwritten signature in black ink that reads "James L. Layton". The signature is fluid and cursive, with a large loop at the beginning of the first name.

James L. Layton, CPA  
Chairman



FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314  
TELEPHONE (850) 224-2727 • FAX (850) 222-8190

June 8, 2000

Ms. Jackie Walker  
Audit and Attest Standards, File 3733  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: Exposure Draft: *Omnibus Statement on Auditing Standards – 2000*

Dear Ms. Walker

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed the above referenced exposure draft ("ED"). The Committee agrees with the proposed changes in the above referenced ED and feels the changes provide necessary clarification.

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,

Joy L. Gibson, CPA  
Chairman  
FICPA Committee on Accounting Principles and Auditing Standards

Committee member coordinating this response:  
Scot E. Aurelius, CPA



June 15, 2000

Ms. Jackie Walker  
Audit and Attest Standards, File 3733  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Walker:

The Committee on Audit and Assurance Services of the Illinois CPA Society ("Committee") is pleased to have the opportunity to comment on the exposure draft of the "Proposed Statement on Auditing Standards entitled *Omnibus Statement on Auditing Standards – 2000*. The following comments and considerations represent the collective views of the members of the Committee. The organization and operating procedures of the Committee are reflected in the Appendix to this letter.

#### **SPECIFIC CONSIDERATIONS**

Paragraph 1 - Regarding agreed-upon procedures, we recommend that a reference to the attestation standards be left in generally accepted auditing standards. We believe that many practitioners are not familiar with the attestation standards and, when they find that AU Section 622 has been superseded, may not know where to go from there.

Paragraph 3 – Regarding investee auditors, we recommend that it be made more clear whether the audit procedures concerning an investment accounted for under the equity method could be disclosed in the second paragraph of the auditor's report (similar to an investment company report, as illustrated in Paragraph 9.03 of Investment Company Audit and Accounting Guide) or in an emphasis of a matter paragraph.

Paragraph 8 – Regarding auditor's report, we recommend that the effective date be 2000. We believe this change is not difficult to implement and is important enough not to be postponed.

Sincerely,

Debra Hopkins  
Chair, Audit and Assurance Services Committee  
Illinois CPA Society

## *APPENDIX A*

ILLINOIS CPA SOCIETY  
AUDIT AND ASSURANCE SERVICES COMMITTEE  
ORGANIZATIONAL AND OPERATING PROCEDURES  
2000

The Audit and Assurance Services Committee of the Illinois CPA Society (the Committee) is composed of twenty technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to fifteen years. The Committee is a senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of auditing standards.

The Committee usually operates by assigning a subcommittee of its members to study and discuss fully exposure documents proposing additions to or revisions of auditing standards. The subcommittee ordinarily develops a proposed response which is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint.

Jackie Walker  
Audit and Attest Standards  
File 3733  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Walker,

We appreciate the opportunity to participate in due process. In response to the proposals contained in the exposure draft, "Omnibus Statement on Auditing Standards - 2000," we offer the following comments. Our comments are in the same subject order as presented in the exposure draft.

We are in support of withdrawing SAS No. 75 to consolidate the guidance applicable to agreed-upon procedures engagements in professional standards. It has been a continuous challenge to determine whether auditing or attest standards apply to agreed-upon procedures engagements. Consolidated guidance will allow practitioners to provide these services more efficiently as there will be less time spent in determining which standards apply.

We are in agreement with the proposed amendment to AU section 543 to clarify that the auditor of an investee accounted for under the equity method is not a participating auditor with respect to the audit of the investor.

We are in agreement with the proposed amendment to AU section 508 to include a reference to the country of origin of the accounting principles used for financial statement preparation and the auditing standards followed in performing the audit. There is no reason given for the effective date of this amendment. We do not see any advantage to delaying the effective date for a year as the amendment does not appear particularly onerous. We suggest a December 15, 2000, effective date.

In addition to reports on audited financial statements, we routinely issues special reports. It is not inconceivable that special reports could also make their way throughout the world via the Internet. AU section 623.05c(1) requires a statement that "...the audit was conducted in accordance with generally accepted auditing standards." AU section 623.05d(2) requires a statement that "...the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles." AU sections 623.15, 623.20, 623.25 and 623.29 also contain similar requirements. We suggest the Auditing Standards Board consider whether amendments to AU section 623, to identify the country of origin for accounting principles and auditing standards used, are warranted.

We are in support of the proposed amendment to SAS No. 84 to broaden the definition of "predecessor auditor."

If you have any questions concerning our response, you can reach me by e-mail at [vrauser@state.mt.us](mailto:vrauser@state.mt.us) <<mailto:vrauser@state.mt.us>> or by phone at 406.444.3122.

Sincerely,

Vickie Rauser  
Audit Manager  
Montana Legislative Audit Division



6



"Myrana Gibler"  
<GIBLER@auditor.state.mo.us>

To: <jwalker@aicpa.org>  
cc:  
Subject: Comments - Proposed SAS

06/27/00 11:51 AM

Attached is a file with our comments on the proposed SAS titled "Omnibus Statement on Auditing Standards--2000." If you have any questions regarding the information, please contact me as follows:

Myrana Gibler, CPA, CGFM  
Audit Manager  
Office of Missouri State Auditor  
P.O. Box 869  
Jefferson City, MO 65102  
Telephone: (573) 751-4213  
Fax: (573) 751-7984  
E-mail: gibler@auditor.state.mo.us



SASresponse.do

## COMMENTS - PROPOSED STATEMENT ON AUDITING STANDARDS

The Office of Missouri State Auditor appreciates the opportunity to comment on the exposure draft of the proposed Statement on Auditing Standards (SAS) titled *Omnibus Statement on Auditing Standards--2000*. This Statement:

1. Withdraws SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*, vol. 1, AU sec. 622).
2. Amends AU sec. 543 ("Part of Audit Performed by Other Independent Auditors") to clarify that the work of another auditor of an investment accounted for under the equity method should **not** be considered part of the audit of the investor. Thus, the investor's auditor is **not** in a principal auditor position with respect to the investee's auditor.
3. Amends SAS No. 58, *Reports on Audited Financial Statements* (AU sec. 508) to require the auditor's standard report to refer to the **country of origin** of (a) the accounting principles used to prepare the financial statements and (b) the auditing standards followed in the audit of those statements.
4. Amends SAS No. 84, *Communications Between Predecessor and Successor Auditors* (AU sec. 315) to clarify that the definition of "predecessor auditor" includes an auditor who is engaged to perform, but does not complete, an audit.

We have no significant objections to these changes. Item 1 results from proposed changes to the attestation standards; items 2 and 4 are desirable clarifications. Item 3 results from the increasing circulation of financial information among countries (i.e., the global economy) but will require **many** editorial changes in both authoritative and nonauthoritative accounting and auditing literature. For example, the familiar acronyms "GAAS" and "GAAP" will disappear; the new phrases are "auditing standards generally accepted in the United States of America" and "accounting principles generally accepted in the United States of America."

Likewise, many editorial changes will be needed in our audit manuals, including changes to all of our standard reports for financial statement audits and single audits. (The AICPA will have to revise its example reports for governmental entities since the proposed changes will affect the report on the financial statements, the report on compliance and on internal control for financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*, and the report on compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with Office of Management and Budget Circular A-133. Those reports are in sources other than the proposed SAS, such as the audit guide for state and local governments.)

Based on our review, we also suggest the following minor changes to the exposure draft:

1. pages 12-13, paragraph 6 (AU sec. 508.08) - Change the dates in the example auditor's reports to reflect the new century (e.g., 20XX).
2. page 14, paragraph 9 (AU sec. 315.02) - In the third line delete the comma between "audit" and "but" since the latter word does not connect two independent clauses.



ARTHUR ANDERSEN

Ms. Jackie Walker  
Audit and Attest Standards  
File 3733  
American Institute of Certified  
Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Arthur Andersen LLP  
33 West Monroe Street  
Chicago IL 60603-5385

June 27, 2000

Dear Ms. Walker:

We appreciate this opportunity to comment on the proposed Statement on Auditing Standards (SAS), *Omnibus Statement on Auditing Standards – 2000*.

We have considered the proposed SAS and recommend that the Auditing Standards Board (ASB) issue the final standard subject to consideration of the following comments.

We are concerned about the impact of deleting AU Section 543.14 on situations where an equity-method investment is material in relation to the financial statements of an investor. The proposed footnote reference in AU 543.02 directing the auditor to AU Section 332 adds to our concern. AU Section 332.17 states, "Financial statements of the investee generally constitute sufficient evidential matter as to the equity in the underlying net assets and results of operations of the investee if such investments have been audited by an auditor whose report is satisfactory for this purpose." We believe that the words "generally constitute sufficient evidential matter" in AU 332.17 may be too broad and, as a result, may reduce the quality of audits, especially when an equity-method investment is material in relation to the financial statements of an investor.

We realize that the ASB may conclude that any guidance on auditing investments accounted for under the equity method of accounting should ultimately reside in proposed SAS, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*. Accordingly, our support for the issuance of *Omnibus SAS – 2000*, is conditioned upon the addition of language similar to the following in the proposed SAS, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* and the amendment of AU 332.17 with consistent guidance:

**Valuation Based on an Investee's Financial Results<sup>1</sup>.** The auditor should obtain sufficient evidence in support of an investee's financial results, including but not limited to an investment accounted for under the equity method of accounting. The auditor should read available financial statements of the investee and the accompanying

auditors' report, if any. Financial statements of an investee that have been audited by an auditor whose report is satisfactory<sup>2</sup> to the investor's auditor for this purpose, may constitute sufficient evidential matter. If the report of the investee's auditor is not satisfactory or not sufficient by itself because of significant differences in fiscal year ends, significant differences in accounting principles, changes in ownership, changes in conditions affecting the use of the equity method, or the materiality of the investment to the investor's financial position or results of operations, the investor's auditor should obtain additional audit evidence<sup>3</sup>. If the investee's financial statements are not audited, the investor's auditor should apply, or should request that the investor arrange with the investee to have another auditor apply, appropriate auditing procedures, considering the materiality of the investment in relation to the financial statements of the investor.

<sup>1</sup> This guidance does not apply to investees accounted on a consolidated basis. Auditors of consolidated investees should consider the guidance in AU Section 543, *Part of Audit Performed by Other Independent Auditors*.

<sup>2</sup> In determining whether the report of another auditor is satisfactory, the auditor may consider performing procedures discussed in AU Section 543.10 and .12, *Part of Audit Performed by Other Independent Auditors*, such as making inquiries as to the professional reputation and standing of the other auditor, visiting the other auditor, discussing the audit procedures performed and the related results, and reviewing the audit program and/or working papers of the other auditor. The work of another auditor should not be considered part of the audit of the investor with respect to an investment accounted for under the equity method. It is inappropriate to consider the investee's auditor as a participating auditor or to imply that the investee's auditor shares any responsibility for the audit of the investor's financial statements by making reference to the investee's auditor in the report of the investor's auditor.

<sup>3</sup> The investor auditor may consider performing procedures including, but not limited to, reviewing investee minutes, budgets, cash flows, and other information in the investor's files that relates to the investee, making inquiries of investor management about the investee's financial results and financial condition, reviewing the investee's stock price and reports of equity analysts, if available, and performing procedures to assess any impairment in valuation of the investment, if applicable.

Ms. Jackie Walker  
June 27, 2000  
Page 3 of 3

The implications of the change in AU 543 for auditors are not clearly indicated in the exposure draft and the manner in which the ASB proposes to fill any void in the audit guidance created by the amendment is not explained. We believe that the impact on the quality of audits of the proposed *Omnibus SAS – 2000* would be improved if it included an explanation of how the amendment to AU 543 and the proposed SAS, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*, will eventually work together.

We would be pleased to discuss 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,

A handwritten signature in cursive script that reads "Arthur Andersen LLP".

Arthur Andersen LLP

LRW



**STATE OF TENNESSEE  
 COMPTROLLER OF THE TREASURY  
 DEPARTMENT OF AUDIT  
 DIVISION OF STATE AUDIT  
 SUITE 1500  
 JAMES K. POLK STATE OFFICE BUILDING  
 NASHVILLE, TENNESSEE 37243-0264  
 PHONE (615) 741-3697  
 FAX (615) 532-2765**

June 29, 2000

Jackie Walker  
 Audit and Attest Standards, File 3733  
 AICPA  
 1211 Avenue of the Americas  
 New York, NY 10036-8775

Dear Ms. Walker:

On behalf of the Department of Audit we would like to thank you for the opportunity to comment on the Exposure Draft (ED) entitled, *Omnibus Statement on Auditing Standards—2000*.

We agree with the proposed changes suggested in the ED. We also agree that a need for Statement on Standards (SAS) No. 75 will no longer exist when the changes recently proposed for the Statements on Standards for Attestation Engagements (SSAE), *Attestation Standards: Revision and Recodification* are issued. We do, however, propose the following changes for the Auditing Standards Board to consider as it finalizes this Statement.

Withdrawal of SAS No. 75

Proposed paragraph two on page 9 states that, "This withdrawal is effective on the effective date of the above-referenced amendment to the attestation standards." Because this Omnibus Statement would be a separately issued document, we would suggest adding the specific effective date of the SSAE to this paragraph. This clarification would be more useful to the users of this document.

Amendment to SAS 58

We agree with the proposed changes. However, we would suggest changing the effective date in paragraph 8 on page 14 which states that, "This amendment is effective for reports issued on or after December 15, 2001. Earlier application is permitted." We do not believe the delayed implementation period is necessary and suggest changing the effective date to state, "This

amendment is effective for reports issued on or after December 15, 2000. Earlier application is permitted." This change would provide users with more timely and accurate information as to the origins of the accounting principles and auditing standards used.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz, Technical Analyst, or me at (615) 741-3697.

Sincerely,

Arthur A. Hayes, Director  
Division of State Audit

# Paul E. Pierson, CPA

230 Burton Street  
Grayslake, Illinois 60030

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June 30, 2000

Jackie Walker  
Audit and Attest Standards, File 3733  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Walker:

I am pleased to present my views on the proposed *Statement on Auditing Standards* entitled "Omnibus Statement on Auditing Standards – 2000".

I am in favor of all of the proposed amendments. Specifically, I am pleased that the standards for applying agreed-upon procedures to specified elements, accounts, or items of a financial statement will be consolidated with similar standards contained in the attestation standards. In addition, I agree with the Board's decision to amend AU Section 315 regarding communications with predecessor auditors. However, I believe that the proposed language is still unclear with respect to the situation discussed in paragraph 9 of the exposure draft. I would suggest the Board add the following additional sentence to footnote 2: "For first-year audits, any auditor who was engaged to perform, but did not complete an audit of the financial statements, would also be considered a predecessor auditor."

If the Board wishes to discuss my response, please feel free to call me at 312-993-0407, x236 or email me at [piersonp@icpas.org](mailto:piersonp@icpas.org).

Sincerely,

Paul E. Pierson, CPA



# National State Auditors Association

## OFFICERS AND EXECUTIVE COMMITTEE

June 30, 2000

President  
**BARBARA J. HINTON**  
Legislative Post Auditor  
1200 Merchants Bank Tower  
800 S.W. Jackson  
Topeka, KS 66612-2212

Jackie Walker  
Audit and Attest Standards, File 3733  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

President-Elect  
**RONALD L. JONES**  
Chief Examiner of  
Public Accounts  
Alabama

Dear Ms. Walker:

Secretary-Treasurer  
**RICHARD L. FAIR**  
State Auditor  
New Jersey

On behalf of the National State Auditors Association (NSAA), we appreciate the opportunity to respond to the exposure draft (ED) entitled, *Omnibus Statement on Auditing Standards - 2000*. We have reviewed this ED and generally agree with its provisions.

### Other Members

Immediate Past President  
**THOMAS H. MCTAVISH**  
Auditor General  
Michigan

We are particularly pleased with the proposed treatment of Statement on Auditing Standards (SAS) No. 75. The revisions recently proposed for the Statements on Standards for Attestation Engagements would eliminate the need for SAS No. 75, and we agree that it should be withdrawn upon issuance of the revised attestation standards. We do, however, present the following issues for the Auditing Standards Board ("Board") to consider as it finalizes this Statement.

**WILLIAM G. HOLLAND**  
Auditor General  
Illinois

### *Withdrawal of SAS No. 75*

**RALPH CAMPBELL, JR.**  
State Auditor  
North Carolina

**AUSTON JOHNSON**  
State Auditor  
Utah

Paragraph 2, on page 9 of the ED, merely states that "This withdrawal is effective on the effective date of the above-referenced amendment to the attestation standards." Because this ED will be issued as a separate omnibus Statement, we are concerned that paragraph 2 neither contains a specific effective date nor even restates the effective date contained in the referenced and proposed Statement on Standards for Attestation Engagements (SSAE). To improve the usefulness of the document to the reader, we strongly recommend that the Board expand paragraph 2 to read, "This withdrawal is effective on the effective date of SSAE, *Attestation Standards: Revision and Recodification*, which is for assertions or subject matter as of or for a period ending on or after June 15, 2001. Because earlier application of the attestation standard is permitted, this withdrawal is effective simultaneously with that standard."

### *Amendment to SAS No. 1*

We are concerned that the first sentence of the footnote in paragraph 4 may be too broadly written to allow for misunderstandings about reliance on other auditors' work. We suggest that the term "another auditor" be replaced with "investee's auditor" to better clarify the specific situation described in this proposed revision.

### *Amendment to SAS No. 58*

Paragraph 8 on page 14 states that, "This amendment is effective for reports issued on or

Ms. Jackie Walker  
June 30, 2000  
Page 2

after December 15, 2001. Earlier application is permitted.” Because the Board has indicated that audited financial statements are increasingly available to readers throughout the world on the Internet, we believe that this relatively minor amendment should be implemented as timely as possible. For this reason, we suggest that the Board revise paragraph 8 to read “This amendment is effective for reports issued on or after December 15, 2000. Earlier application is permitted.”

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We appreciate the efforts of the Board and the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kinney Poynter, NSAA Deputy Director, at (606) 276-1147 or me at (785) 296-3792.

Sincerely,



Barbara J. Hinton  
Legislative Post Auditor, Kansas  
President, NSAA

**Deloitte  
& Touche**

July 11, 2000

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

Re: **File 3733**

Dear Ms. Fischbach:

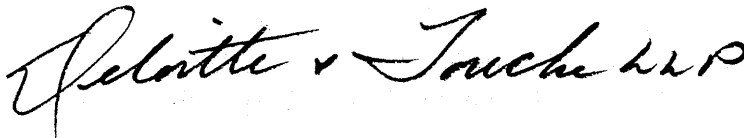
We are pleased to comment on the Proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards—2000*.

We fully support (1) the withdrawal of SAS No. 75 with the incorporation of the relevant guidance in SAS No. 75 into the attestation standards and (2) amending existing standards (a) to include a reference in the auditor's report to the country of origin of accounting principles and auditing standards, and (b) to clarify the definition of predecessor auditor. However, we believe the proposed amendment to AU sec. 543, *Part of the Audit Performed by Other Independent Auditors*, requires further study. We understand that an ASB Task Force has been established to study the need for other amendments or interpretations of AU sec. 543. Accordingly, we strongly believe that consideration of the proposed amendment to AU sec. 543 be postponed and considered in that project.

Additionally, we have some recommendations regarding the amendment to SAS No. 58 and some editorial comments for your consideration, as described in the attachment to this letter. New text is shown in bold face.

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

Sincerely,



Attachment

**Amendment to SAS No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 543 “Part of Audit Performed by Other Independent Auditors”)**

**Paragraphs 3 - 5**

We understand that an ASB Task Force has been established to study a number of issues raised concerning the application of AU sec. 543, *Part of an Audit Performed by Other Independent Auditors*. We strongly recommend that the proposed amendment in paragraphs 3 through 5 be postponed and considered in that project. We believe it would be beneficial to consider the issues surrounding the position of an auditor of an investee accounted for under the equity method at the same time the other issues in AU sec. 543 are reviewed. In our opinion, piecemeal revisions of a standard should be avoided; if changes are made now to AU sec. 543, and additional revisions become necessary in the near future based on the Task Force’s efforts, the standard setting process may appear to be disorganized. Therefore, we suggest postponing consideration of the proposed amendment and accelerating the Task Force’s study of AU sec. 543.

**Amendment to SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508.08)**

**Paragraph 6**

We recommend that the years identified in the report examples that are being amended also be updated at the same time to “20x2 and 20x1.”

**Paragraph 8**

Reports are frequently reissued prior to the completion of a subsequent audit, particularly for use in offering documents. Accordingly, we recommend that paragraph 8 be revised to specifically address reissued reports as follows:

This amendment is effective for reports issued **or reissued** on or after December 15, 2001. Earlier application is permitted.

**Amendment to SAS No. 84, *Communications Between Predecessor and Successor Auditors* (AICPA, *Professional Standards*, vol. 1, AU sec. 315.02)**

**Paragraph 9**

We believe that the reference to “any subsequent financial statement” in Footnote 2 of AU sec. 315.02 should also be revised to “the financial statements,” consistent with the proposed amendment to AU sec. 315.02.



(12)

STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
Fax (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

July 3, 2000

Jackie Walker  
Audit and Attest Standards, File 3733  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Ms. Walker:

We have reviewed the AICPA Exposure Draft (ED) of a proposed Statement on Auditing Standards (SAS), entitled *Omnibus Statement on Auditing Standards--2000*, dated May 1, 2000, and we support the withdrawal of SAS No. 75 and the amendments to SAS Nos. 1, 58, and 84. We do, however, have three comments for consideration by the AICPA Auditing Standards Board (Board) in finalizing the document.

Withdrawal of SAS No. 75

1. Paragraph 2, on Page 9 of the ED, merely states that "This withdrawal is effective on the effective date of the above-referenced amendment to the attestation standards." Because this ED will be issued as a separate omnibus Statement, we are concerned that Paragraph 2 neither contains a specific effective date nor even restates the effective date contained in the referenced and proposed Statement on Standards for Attestation Engagements (SSAE). To improve the usefulness of the document to the reader, we strongly recommend that the Board expand Paragraph 2 to read "This withdrawal is effective on the effective date of SSAE, *Attestation Standards: Revision and Recodification*, which is for assertions or subject matter as of or for a period ending on or after June 15, 2001. Because earlier application of the attestation standard is permitted, this withdrawal is effective simultaneously with that standard."

Amendment to SAS No. 1

2. Paragraph 4, on Page 10 of the ED, would add a footnote to the first sentence of AU section 543.02 to remove any implication that the investee's auditor is participating in the audit of the investor. The first two sentences of the footnote in Paragraph 4 state "With respect to an investment accounted for under the equity method, the work of another auditor should not be considered part of the audit of the investor. Accordingly, it is inappropriate to consider the investee's auditor as a participating auditor or to imply that the investee's auditor shares any responsibility for the audit of the investor's financial statements by making reference to the investee's auditor in the report of the investor's auditor." Although we agree with the intent of this footnote, we are concerned that the first sentence may be too broadly written to allow for potential exceptions. Under certain rare circumstances, 'another auditor' (not necessarily the investee's auditor) might in fact be considered part of the audit of the investor. Therefore, to more appropriately qualify the proposed guidance, we suggest that the Board revise the first portion of the footnote in Paragraph 4 slightly to read "With respect to an investment accounted for under the equity method, the work of another auditor generally should not be considered part of the audit of the investor. For example, it is inappropriate to consider the investee's auditor as a participating auditor..."

Amendment to SAS No. 58

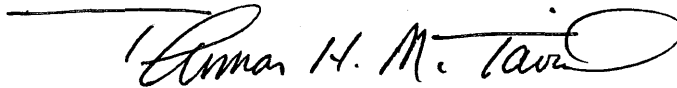
3. Paragraph 8, on Page 14 of the ED, states that "This amendment is effective for reports issued on or after December 15, 2001. Earlier application is permitted." We have two concerns with this delayed effective date. First, because the Board has indicated that audited financial statements are increasingly available to readers throughout the world on the Internet, we believe that this relatively minor amendment should be implemented as timely as possible. Second, this effective date is inconsistent with the effective dates (on or after December 15, 2000) of the proposed amendments to both SAS Nos. 1 and 84 contained in the same ED. For these reasons, we suggest that the Board revise Paragraph 8 to read "This amendment is

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effective for reports issued on or after December 15, 2000. Earlier application is permitted."

We appreciate the opportunity to comment on this Exposure Draft. Should you have any questions, or desire further details on our comments, please contact me or Jon A. Wise, C.P.A., Director of Professional Practice.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is written in a cursive style with a large, looping initial "T" and a circular flourish at the end.

Thomas H. McTavish, C.P.A.  
Auditor General

July 12, 2000

Ms. Jackie Walker  
Audit and Attest Standards, File 3733  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Proposed Statement on Auditing Standards (SAS),  
*Omnibus Statement on Auditing Standards 2000*

Dear Ms. Walker:

Ernst & Young LLP supports the issuance of the above referenced proposed Statement on Auditing Standards except for the portion of the Omnibus addressing AU543, *Part of Audit Performed by Other Independent Auditors*.

We strongly believe the basic model in AU543 should be retained. For purposes of the issues addressed in AU543, we believe there are no meaningful differences between what an investor's auditor should do when an investee is audited by another auditor, and what a principal auditor should do for a consolidated subsidiary audited by another auditor. It is inappropriate for auditing standards to preclude the auditor of an investor from making reference to the auditor of a significant investee accounted for under the equity method when the principal auditor in fact has placed some level of reliance on the significant investee auditor's report. We believe it is appropriate for standards to provide for making such reference because it is frequently impracticable for the principal auditor to perform procedures related to the other auditor's work to the extent necessary where the investee is significant to the investor. Auditors should follow the existing guidance in AU543.04-.05 and AU543.10-.13 (*Decision Not to Make Reference*) and 543.06-.11 (*Decision to Make Reference*).

We also believe the existing guidance in AU543 is consistent with SEC Rule 2-05 of Regulation S-X (*Examination of Financial Statements by More Than One Accountant*), Rule 3-09 of Regulation S-X (*Separate Financial Statements of Subsidiaries not Consolidated and 50 Percent or Less Owned Persons*), and Section 602 (*Requirements and Interpretations Relating to Independence*) and existing practice.

However, we recognize that there may be a need to clarify how the investee and investor auditor should consider materiality and the significance of the investee to the investor in applying AU543.14, and how AU543.14 relates to Ethics Interpretation ET 101.8, *Effect of independence of financial interests in nonclients having investor or investee relationships with a member's*



Ms. Jackie Walker  
American Institute of Certified Public Accountants

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*client*. As presently worded, AU543.14 does not include any statement about materiality or significance of the investee to the investor, and this could lead to practitioners attempting to apply AU543 and related independence rules to situations in which they need not be applied. We recommend the ASB consider an interpretation to AU543.14 to clarify that it applies only to material investees.

Related to this, we also believe footnote 13 as presently drafted in the new SAS, *Auditing Derivative Instruments, Hedging Activities and Investments in Securities*, requires modification as follows:

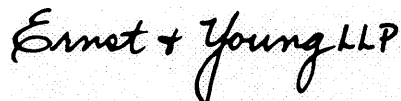
In determining whether the report of another auditor is satisfactory, the auditor may consider performing procedures discussed in Section 543.10-12, *Part of Audit Performed by Other Independent Auditors*, such as making inquiries as to the professional reputation and standing of the other auditor, visiting the other auditor and discussing the audit procedures followed and the results thereof, and reviewing the audit program and/or working papers of the other auditor. ~~With respect to an investment accounted for under the equity method, the work of another auditor should not be considered part of the audit of the investor. Accordingly, it is inappropriate to consider the investee's auditor as a participating auditor or to imply that the investee's auditor shares any responsibility for the audit of the investor's financial statements by making reference to the investee's auditor in the report of the investor's auditor.~~

The ASB is scheduled to vote on issuance of the new *Auditing Derivatives* SAS in July 2000. Consistent with our concern regarding the amendment to AU543, we will qualify our assent to the issuance of the *Auditing Derivatives* SAS if the footnote above remains as stated, where it precludes the investor's auditor from making reference in its report to the investee's auditor. Besides being in conflict with our fundamental belief that the auditing standards should not preclude this approach, we also believe it is inappropriate for guidance on this type of a reporting issue to be contained in a SAS on auditing derivatives.

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

Sincerely,



Sherman Rosenfield" <rosenfie@gateway.net>  
05/08/2000 10:51 AM

To: <jwalker@aicpa.org>  
cc:  
bcc:  
Subject: Proposed SAS

I urge you NOT to make the country of GAAP origin mandatory-- but to leave it elective instead.

I take this position because the OVERWHELMING majority of audit reports (by number) are for privately held businesses-- whose financial statements are not distributed on the internet and do not go outside the U.S. They go only to U.S. resident owners and/or to U.S. bankers. This is, once again, really a "big 5" issue. Local CPA firms-- and their clients-- should not have to address it.

Thank you

Sherman L. Rosenfield, CPA, P.A.  
Miami, Fl.  
305 595 4742

July 11, 2000

Ms. Jackie Walker  
Audit and Attest Standards, File # 3733  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: ED *Omnibus Statement on Auditing Standards* – 2000, May 1, 2000

Dear Ms. Walker:

One of the objectives that the Council of the American Institute of Certified Public Accountants 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 ("ED") and is providing the following comments for your consideration.

#### **General Comment**

TIC supports the four components of the ED and has the following specific comments with respect to two of the four components.

#### **Specific Comments**

##### *Withdrawal of SAS 75, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement (AU 622):*

TIC is pleased to see that the authoritative guidance for agreed-upon procedures (AUP) engagements will be fully contained in the Statements on Standards for Attestation Engagements. Many practitioners are performing an increasing number of AUP engagements, and TIC has found that the existing rules have caused confusion over which standard applies to a particular engagement. We therefore believe practitioners will benefit from this change.

##### *Amendment to SAS 58, Reports on Audited Financial Statements (AU 508.08):*

TIC acknowledges the need for this amendment. TIC recommends that prior to the implementation date of this amendment to SAS 58 (reports issued on or after December 15, 2001) there be a fair amount of communication to practitioners. We

believe that it is especially important to reach those practitioners that may not perceive their clients' financial statements as having any utility beyond the United States borders.

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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

cc: PCPS Technical Issues Committee