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American Institute of Certified Public Accountants. Auditing Standards Board

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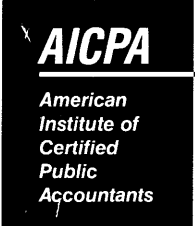
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Includes both Auditing + Attestation Standards

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

(212) 596-6200
Fax (212) 596-6213

ATTACHMENT D

July 14, 1995

File Ref. No. 1120
2121

To the Auditing Standards Board:

Here are the comment letters received to date on the proposed exposure draft *Omnibus Statement on Auditing Standards and Statements on Standards for Attestation Engagements - 1995*.

Letter No.	Name/Affiliation	Location
1.	Frederick J. Tomkins, CPA Girona & Doria, CPA's	Bayonne, NJ
2.	Philip D. Rogers, CPA	Atlanta, GA
3.	Daniel G. Kyle, CPA, CFE Office of Legislative Auditor	Baton Rouge, LA
4.	Thomas H. McTavish, CPA Office of the Auditor General	Lansing, MI
5.	P. Daniel Hurley, Jr. Massachusetts Society of Certified Public Accountants, Inc.	Boston, MA
6.	Richard Serluco New Jersey Society of Certified Public Accountants	Roseland, NJ
7.	Richard J. McDonnell U.S. Department of Transportation	Washington, DC

Letter No.	Name/Affiliation	Location
8.	Claude L. Vickers State Auditor State of Georgia Department of Audits and Accounts	Atlanta, GA
9.	John J. O'Leary, CPA Walter M. Primoff, CPA New York State Society of Certified Public Accountants	New York, NY
10.	Charles L. Lester, CPA Office of the Auditor General	Tallahassee, FL
11.	Accounting and Auditing Standards Committee Louisiana Society of CPAs	Houma, LA
12.	Arthur A. Hayes, CPA, Chair Financial Management Standards Committee Association of Government Accountants	Alexandria, VA
13.	William G. Bishop III, CIA President Institute of Internal Auditors	Altamonte Springs, FL
14.	Coopers & Lybrand, LLP	New York, NY
15.	Lucinda V. Upton Governmental Training Solutions	Lexington, KY
16.	Accounting and Auditing Standards Committee Florida Institute of Certified Public Accountants	Tallahassee, FL
17.	KPMG Peat Marwick LLP	New York, NY
18.	Deloitte & Touche LLP	Wilton, CT
19.	Ernst & Young LLP	Cleveland, OH
20.	Price Waterhouse LLP	New York, NY

Letter No.	Name/Affiliation	Location
21.	Anthony J. Verdecchia President National State Auditors Association	Lexington, KY

If you have any questions, please call me at 212/596-6028.

Sincerely,



J. Eric Nicely
Practice Fellow
Auditing Standards Division

Attachments

EXPOSURE DRAFT

FILE 2121

PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

OMNIBUS STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS 1995

February 23, 1995

Comment Date: June 30, 1995

Name and Affiliation: FREDERICK J. TOMKINS, CPA - DONOHUE, BRONDA & DORIA, CPA's

Comments: RE: PROPOSED CHANGES TO SPECIAL REPORTS

In the State of New Jersey there is a statutory audit requirement for counties and municipalities. The financial statements are prepared on a comprehensive basis of accounting other than generally accepted accounting principles. Language is included in the opinion that the report is to be used only for filing with the regulatory agency, although it is recognized as becoming a public record. In fact the auditor is aware that the report is filed with bondholders, trustees, rating agencies, and anyone who may ask for a copy.

How does this change affect our opinion if we are aware of the distribution to other than the regulatory agency? Would the auditor have to take the position that only a set of financial statements in accordance with generally accepted accounting principles can be distributed to users other than a regulatory agency?

Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

PHILIP D. ROGERS, C.P.A.

8097 ROSWELL ROAD, N.E.

BUILDING E, SUITE 101

ATLANTA, GEORGIA 30350

TELEPHONE (404) 393-4368

TELECOPIER (404) 395-6043

April 18, 1994

CERTIFIED MAIL

Auditing Standards Board
American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas
New York, New York 10036-8775

Gentlemen:

The purpose of this letter is to request clarification of generally accepted auditing standards as those standards pertain to the use of written audit programs by a sole practitioner with no professional staff.

The question of whether or not generally accepted auditing standards require the use of written audit programs by a sole practitioner with no professional staff came up in connection with the initial quality review of my accounting and auditing practice in 1992. In my response to the material covered in the quality review report and letter of comment (my "response"), I stated:

"I do not use written audit programs for a number of reasons -- but, the main reason is that a written audit program is of marginal benefit to a sole practitioner with no professional staff. I more than "offset" the marginal benefit of a written audit program by a thorough review of the audit working papers to make certain that all of the audit procedures I consider necessary to support the audit objectives are contained in the working papers! I develop an audit approach, or "program" as the work progresses, and "review points" are used to follow up on those audit procedures that are incomplete or other audit procedures I consider necessary in the circumstances. I believe that developing an audit approach as the work progresses is more effective and efficient for a sole practitioner with no professional staff. Why? Because I evaluate the assertions in the financial statements as they are -- not as a written audit program anticipates they will be! In addition, whenever it becomes necessary to justify the basis for an auditor's opinion, it is certainly easier to justify why the auditor did an auditing procedure than to justify why the auditor did not do an auditing procedure he planned to do in a written auditing program."

In the transmittal letter accompanying my response, I stated:

"The issue of whether or not written audit programs are a requirement for a sole practitioner with no professional staff is an issue that is not going to go away -- at least as far as my practice is concerned. The American Institute of Certified Public Accountants (the "Institute") really needs to revise the wording of the first standard of field work or its' pronouncements. This issue will inevitably "crop up" again in the quality review program. The quality review program is already unpopular with a third of the

Institute's membership, and such "haggling" over what the Institute meant or did not mean in pronouncements is sure to increase the unpopularity of the program. Even if the Institute revises the wording of the first standard of field work or issues a more precise interpretation of this standard as it applies to written audit programs, the issue will not be resolved. Why? Because a written audit program is not defined -- and, it should never be! Once again, why? Because the more the Institute gets involved in the details of auditing procedures, the more the auditor's role is reduced to that of compliance with those procedures -- and, to the detriment of exercising judgement in the circumstances. The Institute would do well to confine its' role in the auditing process to that of generating auditing standards and leave the design and implementation of auditing procedures to the auditor. Or, stated another way, the Institute should not mess with the judgement of the auditor. Now, if the Institute believes a particular auditing procedure should be "elevated" to that of an auditing standard, fine. That was the case way back in the 1930s when confirmation of receivables and observation of inventories were made auditing standards.

Finally, I would like to point out that sorry work is sorry work -- and, I don't think that a written audit program is going to make a measurable difference to a sole practitioner with no professional staff. If the auditor thinks written audit programs will improve the quality of his audits, fine -- but, the decision to use or not use this planning technique should be left to the auditor."

I do not believe that generally accepted auditing standards, as presently written, even require the use of a written audit program by a sole practitioner with no professional staff. Here is my reasoning:

The first standard of field work states:

"The work is to be adequately planned and assistants, if any, are to be properly supervised."

The operative words in the first standard of field work are:

- 1) Adequately planned; and,
- 2) Assistants, if any, properly supervised.

It might be possible to infer the requirement of written audit programs as a useful tool in (1) planning an audit, or (2) supervising assistants -- but, it is not stated as a requirement.

The auditor is given guidance on planning and supervision in Statements on Auditing Standards (SASs) and interpretations of those statements. Audit planning (AU 311.03) states that:

"Audit planning involves developing an overall strategy for the expected conduct and scope of the audit. The nature, extent, and timing of planning vary with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business."

Audit planning goes on to state that, in planning the audit, the auditor should consider, among other matters, the following:

- a) Matters relating to the entity's business and the industry in which it operates.
- b) The entity's accounting policies and procedures.
- c) The methods used by the entity to process significant accounting information, including the use of service organizations, such as outside service centers.
- d) Planned assessed level of control risk.
- e) Preliminary judgment about materiality levels for audit purposes.
- f) Financial statement items likely to require adjustment.
- g) Conditions that may require extension or modification of audit tests, such as the risk of material errors or irregularities or the existence of related party transactions.
- h) The nature of reports expected to be rendered (for example, a report on consolidated or consolidating financial statements, reports on financial statements filed with the SEC, or special reports such as those on compliance with contractual provisions).

and the auditor may consider the following:

- a) Reviewing correspondence files, prior year's working papers, permanent files, financial statements, and auditor's report.
- b) Discussing matters that may affect the audit with firm personnel responsible for non-audit services to the entity.
- c) Inquiring about current business developments affecting the entity.
- d) Reading the current year's interim financial statements.
- e) Discussing the type, scope, and timing of the audit with management of the entity, the board of directors, or its audit committee.
- f) Considering the effects of applicable accounting and auditing pronouncements, particularly new ones.
- g) Coordinating the assistance of entity personnel in data preparation.
- h) Determining the extent of involvement, if any, of consultants, specialists, and internal auditors.
- i) Establishing the timing of the audit work.
- j) Establishing and coordinating staffing requirements.

There is no mention of written audit programs in the above listings of what the auditor should consider or may consider in audit planning. The only instance in which written audit programs are mentioned under planning (AU 311.05) follows:

"In planning his audit, the auditor should consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or a set of written audit programs). An audit program aids in instructing assistants in the work to be done. It should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail will vary. In developing the program, the auditor should be guided by the results of his planning considerations and procedures. As the audit progresses, changed conditions may make it necessary to modify planned audit procedures."

The operative word in this statement is "should" -- "...the auditor should prepare a written audit program..." The verb "should" is not synonymous with "will, must or shall." It is a verb that conveys a desirable result or intention. The word "should," as defined in the New World Dictionary and other American dictionaries, leaves most readers with more than a little doubt as to whether or not the word is an instruction -- that is, while one should strive to do something, it does not necessarily follow that one must do something! The same interpretation of the "non-absoluteness" of the verb "should" has been given to me by a highly respected English teacher with more than 35 years of teaching experience. It would require a rather substantial "stretch" of the English language (and most of our experiences in using it) to deduce a meaning of will, must or shall from the verb "should."

Even if the verb "should" could be construed to have a meaning of will, must or shall, it would not be unreasonable to "link" the phrase "...should prepare a written audit program..." in the first sentence with the intent of the words "an audit program aids in instructing assistants in the work to be done" in the second sentence. In other words, an auditor "should" prepare a written audit program when it is necessary to instruct assistants. As a minimum, I think it is clear that the wording is a little ambiguous to reach such a clear conclusion that written audit programs are required for a sole practitioner with no professional staff -- or, stated another way, there would be no need to instruct assistants through the use of a written audit program when there "ain't no assistants."

Audit supervision (AU ¶ 311.11-14) has no language germane to the requirement to use or not use written audit programs in audits under generally accepted auditing standards.

The "Audit Risk Alert" section of the Audit and Accounting Manual has been offered in support of the conclusion that a written audit program is required for audits involving sole practitioners with no professional staff. The "Audit Risk Alert -- 1991" under audit programs (AAM 8010.30) states:

"In accordance with paragraph 5 of SAS No. 22, Planning and Supervision (AU section 311), written audit programs, adequately tailored to reflect each client's situation, including areas of greater audit risk, are required in all audits. Audit programs are even required for audits involving sole practitioners when no staff is used on the engagement. The audit program is required to demonstrate that the engagement was appropriately planned. As the audit progresses, the auditor must recognize that changed conditions may make it necessary to modify the planned audit program."

This wording seems to be just a "commentary" on pronouncements of the Auditing Standards Board (the "Board") -- certainly not an interpretation of a pronouncement! Do "Audit Risk Alerts" have the "force" of an interpretation? I don't think so. The caveat at the beginning of the section on "Audit Risk Alerts" states:

"The material included in this section is intended to provide auditors with an overview of recent economic, professional, and regulatory developments that may affect audits they perform. The material in this section has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA."

An overview is a long way from an interpretation of pronouncements. However, the staff of the Auditing Standards Division (the "Division") has, apparently, been authorized to issue "interpretations" of pronouncements of the Board. The Statements on Auditing Standards -- Introduction (AU Section 100) states:

"Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Conduct requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards and requires that members be prepared to justify departures from such Statements.

The staff of the Auditing Standards Division has been authorized to issue Interpretations to provide timely guidance on the application of pronouncements of the Auditing Standards Board. Interpretation is not authoritative as a pronouncement of the Auditing Standards Board, but members should be aware that they may have to justify a departure from an Interpretation if the quality of their work is questioned."

A literal reading of the above introduction would lead a person to believe that an interpretation of the staff of the Auditing Standards Division (the "Division"), to be authoritative, would have to have been reviewed by members of the Board -- the senior technical body of the Institute! The caveat at the beginning of the "Audit Risk Alerts" states that "...the material in this section has not been approved, disapproved, or otherwise acted upon by a senior technical committee or the AICPA. "In other words, "Audit Risk Alerts" are just that, alerts. They are "...an overview of recent economic, professional, and regulatory developments that may affect audits..."

The "Audit Risk Alert -- 1992" under recurring peer and quality review comments (AAM 8010.61) states:

"SAS No. 22, Planning and Supervision (AU section 311), requires the auditor, in planning all audits, to consider the nature, timing, and extent of work to be performed and to prepare a written audit program. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. Also, the audit program should be tailored to the specific client."

The language in "Audit Risk Alert -- 1993" has been changed to simply cover "all audits."

I really don't see how an "Audit Risk Alert" could be construed as an authoritative interpretation of pronouncements of the Board. Even if an "Audit Risk Alert" could be construed as an authoritative interpretation, such an interpretation is not as authoritative as a pronouncement of the Board. Members can depart from an interpretation -- "...but, members should be aware that they may have to justify a departure from an interpretation if the quality of their work is questioned."

I have discussed my interpretation of auditing standards with Dan Guy of the Institute, and he told me that my interpretation of the standard was wrong. He told me that the Institute has always interpreted the word "should" to mean "must," and he was certain that all of the current members of the Auditing Standards Board would support this conclusion. He told me the verb should was chosen to give the auditor a little "wiggle room" in case of litigation. He did, however, agree that I had a good point in my observation that there was some basis to link the phrase "...should prepare a written audit program..." in the first sentence with the intent of the words "an audit program aids in instructing assistants in the work to be done" in the second sentence of the standard. Wording of the standard is a little ambiguous to reach a clear conclusion that written audit programs are required for a sole practitioner with no professional staff. Auditing standards are at the "very heart of the auditing process" and should be written in language that leaves little room for misinterpretation.

As a result of the quality review program of the American Institute of Certified Public Accountants, I have been required, and I have started, using written audit programs on all audits in my practice. However, I still feel as though their use is of marginal benefit to a sole practitioner with no professional staff. I think written audit programs are one of the planning tools an auditor should consider, but there are many other ways an auditor can properly plan an audit if he has no staff to "supervise."

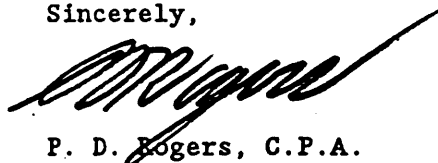
I ask the Auditing Standards Board to "carefully consider" whether or not written audit programs are "really required" by a sole practitioner with no professional staff. Does an auditor really need a written audit program to demonstrate that he has adequately planned an audit? Are there other ways? And, what about the "cost effectiveness" of requiring written audit programs on small audits? I assume that some of the members of the Auditing Standards Board will have had experience in the conduct of an audit as a sole practitioner with no professional staff.

I really hope the Auditing Standards Board will leave the decision to use or not to use written audit programs up to the auditor. I base my observations upon over a third of a century of practice including 13 years with Arthur Andersen & Co., where I was an audit partner for five years; and, 19 years of private practice.

I ask you to cover the reasoning in your clarification of generally accepted auditing standards as those standards pertain to the use of written audit programs by a sole practitioner with no professional staff.

Call me if you have any questions.

Sincerely,



P. D. Rogers, C.P.A.

PDR/mb1

C: Mr. Thomas E. Newell, C.P.A.
Mr. James M. Ruppertsberger
BC: Mr. David L. Kunkler
Mr. F. Arthur Nerret



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
P.O. BOX 94397
TEL (504) 339-3800
FAX (504) 339-3870

April 18, 1995

Mr. J. Eric Nicely, Practice Fellow
Auditing Standards Division
File 2121
AICPA, 1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Nicely:

I have reviewed the division's exposure draft *Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements--1995*. I am in general agreement with the provisions of the exposure draft.

Within paragraph 71 of the proposed changes to the attestation standards, I would add a third element to the contents of working papers, "The scope of the work was sufficient to meet the underlying objectives of the attestation engagement."

Special reports prepared on a comprehensive basis of accounting other than generally accepted accounting principles present some very unique problems for practitioners. The division would be well advised to revisit this entire subject matter. While the proposed language change does little harm to existing standards, the language cannot, and will not, control the use and distribution of these reports. The following are examples of such reports in Louisiana:

- State agencies, on an annual basis, prepare financial statements prescribed by our state accounting office. These financial statements are prepared on a budget basis that differs from generally accepted accounting principles. Under state law, the statements are filed with the Division of Administration and Legislative Auditor where they become a public document, subject to unlimited distribution and use. Once submitted to the division and auditor, the state agency and auditor have little control over the use of these financial statements.
- Housing authorities, on an annual basis, prepare financial statements using accounting principles prescribed by HUD. These financial statements are filed with HUD and the Legislative Auditor where they become public documents and subject to unlimited distribution and use. Again, the housing authorities and their auditors have little control over the financial statements, their distribution, and/or use once filed with these public entities.

Mr. J. Eric Nicely
April 18, 1995
Page 2

The standards should recognize that reports filed with regulatory agencies are controlled by state and federal laws and regulations.

I hope this response proves beneficial to the division's deliberations.

Sincerely,

A handwritten signature in cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK:GCA:db

xc: Mr. Grover Austin
Mr. Larry Fontenot

ATTEST



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

4

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

April 27, 1995

Mr. J. Eric Nicely
Practice Fellow, Auditing Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Nicely:

We have reviewed the Exposure Draft of the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements (File 2121), entitled Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements--1995, and have the following comments for consideration by the Auditing Standards Board (Board).

General Comment

In reviewing the Exposure Draft, we noted that the four proposed changes contained different effective dates. The proposed change to "Planning and Supervision" would be effective for engagements for fiscal years ending after September 15, 1995; the proposed change to "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern" would be effective for reports issued after September 30, 1995; the proposed changes to "Special Reports" would be effective for audits for periods beginning after December 15, 1995; and, the proposed change to "Attestation Standards" would be effective for engagements beginning after September 30, 1995. If the Board intends to issue an omnibus Statement on Auditing Standards and a separate Statement on Standards for Attestation Engagements, one common effective date would greatly simplify the implementation process for the reader. Therefore, we strongly suggest that the Board provide a common effective date (such as ending after, issued after, and beginning after September 30, 1995) for all amendments in the final Statements.

Proposed Change to "Planning and Supervision"

The last sentence of Paragraph 5 states that "As the audit progresses, changed conditions may make it necessary to modify planned audit procedures." Because the second sentence in that paragraph explains that the audit program should set forth the audit procedures in reasonable detail, we suggest that the last sentence be

revised slightly to read "As the audit progresses, changed conditions may make it necessary to modify the audit program and planned audit procedures."

Proposed Changes to "Special Reports"

1. The two-sentence explanation for the proposed changes states that "These amendments preclude an AICPA accounting or audit guide or auditing interpretation from allowing additional distribution of statutory financial statements under an other comprehensive basis of accounting. These amendments are effective for audits of financial statements for periods beginning after December 15, 1995." This paragraph clearly explains the *effect* of the proposed changes; however, unlike the other proposed changes in the Exposure Draft, it does not provide the *reason* for precluding other pronouncements from allowing additional distribution of those financial statements. To ensure that the reader has sufficient background information to understand and evaluate proposed changes, we recommend that the Board state its *reason* for proposed changes in the explanatory sections of all future due process documents.
2. Amended Footnote 1 to Paragraph 2 states that "When reporting on financial statements of a regulated company that are prepared in accordance with the requirements of financial reporting provisions of a government regulatory agency to whose jurisdiction the company is subject, the auditor may report on the financial statements as being prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles...Reports of this nature, however, should be issued only if the financial statements are intended solely for filing with the regulatory agency." Based on our audit experience, we have found that regulated companies are frequently subject to more than one regulatory agency. For example, foreign insurance companies that do business in Michigan are required to file their annual financial statements with the Michigan Insurance Bureau as well as with the regulatory agency in their own jurisdiction. To properly recognize these multiple requirements, we suggest that the second sentence of amended Footnote 1 be revised to read "Reports of this nature, however, should be issued only if the financial statements are intended solely for filing with the regulatory agency or with other regulatory agencies." We also suggest that Paragraph 5(f) and Footnote 4 be revised in a similar manner.
3. The first sentence of Paragraph 4 begins "When financial statements of a regulated company are prepared in accordance with a basis of accounting

Mr. J. Eric Nicely

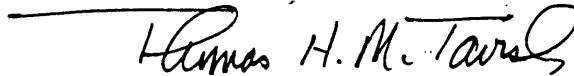
Page 3

April 27, 1995

prescribed by its supervisory agency or the financial reporting provisions of another agency...." For consistency and clarity within the document, we suggest that this sentence be revised to read "When financial statements of a regulated company are prepared in accordance with a basis of accounting prescribed by its government regulatory agency or the financial reporting provisions of another regulatory agency...."

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 cursive script, reading "Thomas H. McTavish". The signature is written in dark ink and is positioned above the typed name.

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



5
5

May , 1995

Mr. J. Eric Nicely
Practice Fellow
Auditing Standards Division, File 2121
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Proposed Statement on Auditing Standards and Statement
on Standards for Attestation Engagements- "Omnibus
Statement on Auditing Standards and Statement on
Standards for Attestation Engagements- 1995"

Dear Mr. Nicely:

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 proprietor to international "big six" firms, as well as members in both industry and academia.

The Committee has reviewed and discussed the exposure draft on the proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements- "Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements- 1995" and is in complete agreement with its proposed provisions and has no further comments. This does not necessarily represent the positions taken by the organizations that employ the individual members of the Committee.

The Committee appreciates the opportunity to participate in your due process procedures and have our views considered.

Very Truly Yours,

P. Daniel Hurley, Jr. Chairman
Accounting Principles and Auditing
Procedures Committee of the MSCPA



New Jersey Society of Certified Public Accountants

6

425 Eagle Rock Avenue
Roseland, New Jersey 07068
(201) 226-4494
Fax (201) 226-7425

April 28, 1995

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

Attention: J. Eric Nicely Practice Fellow
Auditing Standards Division

Re: File ~~3075~~ 2121

Dear Mr. Nicely:

The Auditing and Accounting Standards Committee of the New Jersey Society of Certified Public Accountants hereby submits the following comments with respect to the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements. The views expressed in this letter represent those of the majority of the members of the Committee and are not necessarily indicative of the views of other members of the New Jersey Society of Certified Public Accountants.

The Committee overwhelmingly supports the proposed exposure draft. We believe that these proposed changes will eliminate divergence of practice and clearly emphasize what many believe the existing standards were intended to require.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard Serluco".

Richard Serluco
Chairman, Auditing and Accounting Standards Committee

MAY 11 1995

FILE 2121

EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

OMNIBUS STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS - 1995

February 23, 1995

Comment Date: June 30, 1995

Name and Affiliation: Richard J. McDonnell, Director, Office of Financial Approvals
Maritime Admin., MAR-580 - Rm. 8114 - Dept. of Transportation

Comments: Attestation Standards Section 71.

An additional paragraph c. needs to be added as follows:

c. Special conditions and/or requirements of the engagement
were addressed and met.

The Maritime Administration routinely relies upon certification
by CPA firms that costs have been "paid" regarding vessels under
Title XI financing. The determination that all costs associated
with the vessel have been paid is to assure that all costs are
finalized and that there are no outstanding liens.

The requirement of determining that costs were paid rather than
incurred, as set forth in generally accepted accounting principles,
is a specific requirement for the engagement. Accordingly, such a
requirement or special condition should be addressed and supported
by working papers.

Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

EXPOSURE DRAFT

FILE 2121

PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

OMNIBUS STATEMENT ON AUDITING STANDARDS AND STATEMENTS ON AUDITING STANDARDS FOR ATTESTATION ENGAGEMENTS --1995

February 23, 1995

Comment Date: June 30, 1995

Name and Affiliation: Claude L. Vickers, State Auditor, State of Georgia
Department of Audits and Accounts

Comments: PROPOSED CHANGE TO "PLANNING AND SUPERVISION"

We concur with the proposed change. We feel that a written audit program is the bridge between audit planning and audit procedures performed. We do not foresee any audit implementation problems for our audit organization for we presently produce written audit programs for all engagements. However, the proposed change will encourage us to add emphasis to modifications of audit programs due to changed conditions during the progress of audits.

PROPOSED CHANGE TO "THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN"

We concur with the proposed change. We feel SAS No. 59 clearly requires the auditor to reach a conclusion about whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, thus making it unnecessary to use conditional language.

PROPOSED CHANGES TO "SPECIAL REPORTS"

No comments. Appears to have no effect on our organization.

**Name and Affiliation: Claude L. Vickers, State Auditor, State of Georgia
Department of Audits and Accounts**

PROPOSED CHANGE TO "ATTESTATION STANDARDS"

We concur with the proposed change. We feel the proposed guidance on the quantity, type and content of working papers for attestation engagements is useful and necessary. For our organization, we do not anticipate implementation problems because we presently follow the proposed guidance.

OFFICERS

BRIAN A. CASWELL, CPA
FRANCIS T. NUSSPICKEL, CPA
FRANK G. FUSARO, CPA
JEFFERY R. HOOPS CPA
RICHARD MELNIKOFF, CPA
MARYANN M. WINTERS, CPA
JOSEPH L. CHARLES, CPA
ALAN E. WEINER, CPA
ROBERT L. GRAY, CPA

PRESIDENT
PRESIDENT-ELECT
VICE-PRESIDENT
VICE-PRESIDENT
VICE-PRESIDENT
VICE-PRESIDENT
SECRETARY
TREASURER
EXECUTIVE DIRECTOR



NEW YORK STATE SOCIETY
OF
CERTIFIED PUBLIC ACCOUNTANTS
530 FIFTH AVENUE
NEW YORK, NY 10036-5101
(212) 719-8300
FAX (212) 719-3364

nysscpa

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June 1, 1995

Mr. J. Eric Nicely, Practice Fellow
Auditing Standards Division
File 2121
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards and
Statement on Standards for Attestation Engagements
-Omnibus Statement on Auditing Standards and
Statement on Standards for Attestation Engagements
-1995

Dear Mr. Nicely:

We are enclosing the comments of the New York State Society of Certified Public Accountants in response to the above proposed statement. The comments were prepared by the Society's Auditing Standards and Procedures Committee.

If you have any questions regarding the comments, please call us and we will arrange for someone from on the committees to contact you.

Thank you for your consideration.

Very truly yours,

John J. O'Leary, CPA
Chairman, Auditing Standards &
Procedures Committee

Walter M. Primoff, CPA
Director, Professional Programs

Enclosures

cc: Accounting & Auditing Committee Chairmen

/srb

Mr. J. Eric Nicely
Page Two
June 1, 1995

**Comments of Auditing Standards & Procedures Committee
On
Proposed Omnibus Statement on Auditing Standards and Statement on
Standards for Attestation Engagements-1995**

•**Proposed Change to Planning and Supervision.** The proposed change relates to a clarification of the requirement for a written audit program. We feel the change should be expanded to cover documentation requirements for overall planning. In practice today, most firms document their planning by various means such as an audit planning program, planning checklist, or a self standing document that dovetails the audit program. The 1994 Yellowbook now includes such a requirement for performance audits. We believe this is one area of the standards that lags behind actual audit practice.

•**Proposed Change to "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern."** We believe this section of the auditing standards does not provide enough guidance to auditors as it does not define or include a discussion of the meaning of "substantial doubt." Although sometimes used synonymously with "uncertainty", "doubt" ordinarily carries a negative connotation, more closely related to "disbelief." It is distinctly different from the word "uncertainty" which is neutral. Based on this, could "substantial doubt" be defined as a belief there is substantially less than a 50% probability of survival?

The committee feels that conditional language should be permitted where there is a significant contingency, such as litigation, that could threaten the existence of an entity.

•**Proposed Change to "Attestation Standards."** The requirement for such standards should include a written work program similar to that required under GAAS.

(10)



STATE OF FLORIDA

OFFICE OF THE AUDITOR GENERAL



CHARLES L. LESTER, C.P.A.
AUDITOR GENERAL

June 2, 1995

TELEPHONE:
904/488-5534
S/C 278-5534

Mr. J. Eric Nicely, Practice Fellow
Auditing Standards Division, File 2121
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Nicely:

I am responding to the Exposure Draft of the Proposed Statement on Auditing Standards and Statement on Standards For Attestation Engagements, *Omnibus Statement on Auditing Standards and Statement on Standards For Attestation Engagements - 1995*.

Overall, I support the proposed statement as presented. However, there may be circumstances where conditional language may be appropriate in the auditor's conclusion about the entity's ability to continue as a going concern in a going-concern paragraph prepared in accordance with SAS No. 59. For example, significant threatened or pending action that will affect an entity's going concern if it occurs, such as an external matter that has **not** occurred (buy-outs, legislation, loss of franchise or licensing, etc.), possibly should be reported although the auditor cannot draw a conclusion about the likelihood of the event occurring.

- I appreciate the opportunity to respond to the ED.

Sincerely,

Charles L. Lester

CLL/sd

Exposure Draft # 800082

Proposed Statement on Auditing Standards and Statement on Standards
For Attestation Engagements

Omnibus Statement on Auditing Standards and Statement on Standards
For Attestation Engagements - 1995

Dated: February 23, 1995
Comment Date: June 30, 1995

Response prepared by: Accounting and Auditing Standards Committee - Louisiana Society of CPAs
John Cameron, Member
Mary Sanders, Member
Raymond Prince, Member
Keith Besson, Member
Albert Roevens, Jr., Member

Response submitted by: Keith Besson, Member

J. Eric Nicely, Practice Fellow
Auditing Standards Division, File 2121, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

We have read the exposure draft mentioned above and the committee is in full support of all of the proposed changes.

With regards to the proposed change to "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern," one committee member indicated the example included in the footnote would prove beneficial to the application of this proposed change.

ASSOCIATION of GOVERNMENT ACCOUNTANTS

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June 21, 1995

Mr. J. Eric Nicely
Practice Fellow, Auditing Standards Division—File 2121
American Institute of Certified Public Accountants (AICPA)
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Nicely:

On behalf of the Financial Management Standards Committee, we appreciate the opportunity to comment on the *Proposed Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagements—Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements—1995* exposure draft. We have reviewed the exposure draft and agree with the proposed revision of SAS No. 22 requiring a written audit program for each audit. We do not anticipate any audit-related implementation problems. Additionally, we agree with the proposed revisions to SAS Nos. 1, 59, and 62. However, we submit the following comments and recommendations for consideration by the Auditing Standards Board (Board).

Effective Dates

In reviewing the exposure draft, we noted that the four proposed changes contained different effective dates. The proposed change to "Planning and Supervision" would be effective for engagements for fiscal years ending after September 15, 1995; that for "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern" would be effective for reports issued after September 30, 1995; that for "Special Reports" would be effective for audits for periods beginning after December 15, 1995; and that for "Attestation Standards" would be effective for engagements beginning after September 30, 1995. If the Board intends to issue an omnibus Statement on Auditing Standards and a separate Statement on Standards for Attestation Engagements, one common effective date would greatly simplify the implementation process for the auditor or practitioner. Therefore, we strongly suggest that the Board provide a common

Mr. J. Eric Nicely

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June 21, 1995

effective date (such as ending after, issued after, and beginning after September 30, 1995) for all amendments in the final statements.

Proposed Change to "Planning and Supervision"

The last sentence of paragraph 5 states, "As the audit progresses, changed conditions may make it necessary to modify planned audit procedures." Because the second sentence in that paragraph explains that the audit program should set forth the audit procedures in reasonable detail, we suggest the last sentence be revised slightly to read, "As the audit progresses, changed conditions may make it necessary to modify the audit program and planned audit procedures."

Proposed Changes to "Special Reports"

The two-sentence explanation for the proposed changes states, "These amendments preclude an AICPA accounting or audit guide or auditing interpretation from allowing additional distribution of statutory financial statements under an other comprehensive basis of accounting. These amendments are effective for audits of financial statements for periods beginning after December 15, 1995." This paragraph clearly explains the effect of the proposed changes; however, it does not provide the reasons for the changes. To ensure that the reader has sufficient information to understand and evaluate proposed changes, we recommend the Board state its reasons for the changes in the explanatory sections of all future due process documents.

Amended footnote 1 to paragraph 2 states, "When reporting on financial statements of a regulated company that are prepared in accordance with the requirements of financial reporting provisions of a government regulatory agency to whose jurisdiction the company is subject, the auditor may report on the financial statements as being prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. Reports of this nature, however, should be issued only if the financial statements are intended solely for filing with the regulatory agency." Based on our audit experience, regulated companies are frequently subject to more than one regulatory agency. To properly recognize the multiple requirements that result from multiple agencies, we suggest the second sentence of amended footnote 1 be revised to read, "Reports of this nature, however, should be issued only if the financial statements are intended solely for filing with the regulatory agency or with other regulatory agencies. We also suggest paragraph 5(f) and footnote 4 be revised in a similar manner.

The first sentence of paragraph 4 begins, "When financial statements of a regulated company are prepared in accordance with a basis of accounting prescribed by its supervisory agency or the financial reporting provisions of another agency . . ." For consistency and clarity within the document, we suggest this opening be revised to read, "When financial statements of a regulated company are prepared in accordance with a basis of accounting prescribed by its government regulatory agency or the financial reporting provisions of another regulatory agency . . ."

Mr. J. Eric Nicely

Page 3

June 21, 1995

We appreciate the opportunity to comment on the exposure draft. If you have any questions, please contact me or Dianne Mitchell of my staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA, Chairman
Financial Management Standards Committee

AAH/dkm/fwe



249 Maitland Avenue
Altamonte Springs, Florida 32701-4201
(407) 830-7600 Ext. 288
FAX (407) 831-5171

June 28, 1995

J. Eric Nicely
Practice Fellow
Auditing Standards Division - File 4289 and File 2121
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Nicely:

The Institute of Internal Auditors (IIA) submits the following comments regarding the AICPA Auditing Standards Board's (ASB) Exposure Drafts (EDs) on the "*Amendments to Statements on Auditing Standards (SAS) and Statements on Standards for Attestation Engagements (SSAE) to Incorporate the Internal Control-Integrated Framework Report*" and "*Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements-1995*".

The IIA recognizes that the AICPA ASB members did not include the broader definition of the internal control structure described in the Committee of Sponsoring Organizations (COSO) *Internal Control-Integrated Framework Report* because the primary focus of the EDs was on reliability of financial statement auditing procedures and reporting. However, The IIA believes that the definition of internal control should include references to the safeguarding of assets which is contained in the COSO Report Addendum to "Reporting to External Parties". In that regard, The IIA makes the following recommendations to further improve the guidance on performing audits consistent with the framework contained in the COSO Report:

SAS No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit.

Add to Paragraph 6, Page 10: "... and (d) safeguarding of assets."

Add to Appendix A: Monitoring, a footnote at the end of Paragraph 18, Page 21, which states: "SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*", provides guidance about factors that affect the auditor's consideration of the work of internal auditors in an audit."

SSAE No. 2, Reporting on an Entity's Internal Control Structure Over Financial Reporting.

Add Back to Footnote 3 to Paragraph 1, Page 22: "... (for example, controls over safeguarding of assets or... regulations) should... financial reporting."

Mr. J. Eric Nicely
June 28, 1995
Page Two

SAS No. 70, Reports on the Processing of Transactions by Service Organizations.

Add to Paragraph 26, Page 24, and Paragraph 42, Page 25 at the end of the control environment sentence: "Control environment may include...and responsibility, including safeguarding of assets."

SAS No. 60, Communication of Internal Control Structure Related Matters Noted in an Audit.

Add to Paragraph 4, Page 26: "However, the auditor may ...of the internal control structure, including the safeguarding of assets."

Thank you for this opportunity to respond.

Regards,


William G. Bishop III, CIA

Coopers
& Lybrand

Coopers & Lybrand L.L.P.

a professional services firm.

1251 Ave of the Americas
New York, NY 10020-1157

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(212) 536-3035

June 27, 1995

Mr. J. Eric Nicely
Practice Fellow, Auditing Standards Division
File 2121
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

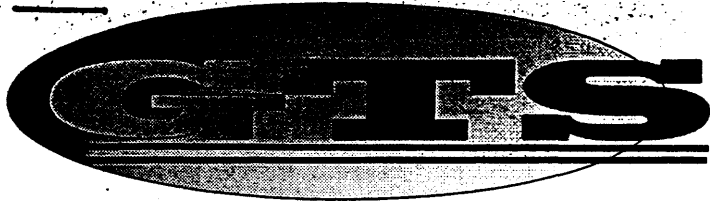
Dear Mr. Nicely:

We are pleased to submit this letter in support of the issuance of the proposed Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements -- 1995.

Please contact James S. Gerson at (212) 536-2243 if you have any questions.

Very truly yours,

Coopers & Lybrand L.L.P.



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June 28, 1995

American Institute of Certified Public Accountants
J. Eric Nicely, Practice Fellow
Auditing Standards Division, File 2121
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Nicely:

We appreciate this opportunity to comment on the exposure draft of *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements: Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements—1995*.

We support all the provisions of this omnibus statement.

We have long supported the requirement to prepare a written audit program for every audit.

We believe that the auditor should not use conditional language in a going-concern explanatory paragraph. Conditional language, much like negative assurance, misleads many readers of the report.

We believe that additional distribution of statutory OCBOA statements should not be allowed. These statements may mislead some readers.

As we anticipate an increase in the importance of attestation engagements, we fully support the addition of working paper documentation requirements.

Please call me at (606) 226-9682 if you have any questions.

Sincerely,

Lucinda V. Upton



(16)

FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
TELEPHONE (904) 224-2727 • FAX (904) 222-8190

June 22, 1995

**Mr. J. Eric Nicely, Practice Fellow
Auditing Standards Division
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775**

RE: FILE 2121

Dear Mr. Nicely:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (Committee) has reviewed and discussed the exposure draft of the proposed Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements - 1995, dated February 23, 1995. We respectfully submit our comments below:

- 1. The Committee agrees with the proposed amendment to Statement on Auditing Standard No. 22.**
- 2. The Committee agrees with the proposed amendment to Statement on Auditing Standard No. 59.**
- 3. Proposed Changes to "Special Reports" - The Committee believes that the proposed change singles out statutory basis financial statements from other financial statements prepared under other comprehensive bases of accounting. Statutory basis statements (SAP) are standard industry practice for certain industries such as insurance companies. Users of these statements should be aware of what standard industry practices are. The SAP statements clearly indicate that they are not statements prepared in accordance with generally accepted accounting principles (GAAP) and the statutory accounting principles and practices are disclosed in the notes to the financial statements.**


Mr. J. Eric Nicely, Practice Fellow
Auditing Standards Division
June 22, 1995
Page Two

It will be burdensome and costly for companies if they can not issue a statutory financial statements under the current reporting requirements for OCBOA statements. Companies that only issue statutory financial statements do not necessarily compute the monetary differences between GAAP and SAP. These differences are often material and require significant time commitments and expertise to determine. The committee disagrees with this change.

4. The Committee agrees to the proposed amendment to Statement on Standards for Attestation Engagements No. 1.

Our committee appreciates the opportunity to comment on the exposure draft.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael O'Rourke", with a long horizontal flourish extending to the right.

Michael O'Rourke, CPA
Chairman (305) 667-3500

Members Coordinating Response:
Joy Gibson (813) 898-2727
Steve Berwick (305) 858-5600

599 Lexington Avenue
New York, NY 10022

Telephone 212 909 5400

Telefax 212 909 5699

July 6, 1995

Mr. J. Eric Nicely
Practice Fellow
Auditing Standards Division, File 2121
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Nicely:

We are pleased to respond to the AICPA Auditing Standards Board's request for comment on the exposure draft: "Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, *Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements - 1995*" (the Proposed Statement). We support the issuance of the Proposed Statement, however, we have the following comments and suggestions for the Board's consideration.

Effective Dates

We suggest that the effective dates of each proposed change be revised to one date to avoid confusion on implementation.

Proposed Change to "Planning and Supervision"

The parenthetical under the heading mistakenly indicates that the proposed change *supersedes* rather than *amends* the relevant paragraph of SAS No. 22.

Paragraph 5 - In the third sentence, the revised wording, "An audit program *also* aids in ...", implies that the paragraph has previously stated another function of the audit program. However, the remaining language in the paragraph establishes the requirement for an audit program and provides guidance on its preparation, not its function. Accordingly, we recommend deleting that entire sentence as it describes only one of the multiple functions of an audit program and is out of context with the rest of the paragraph. Alternatively, the sentence could be rewritten as the penultimate sentence of the paragraph to read: "The audit program also may be used as an aid in instructing assistants in the work to be done."

Additionally, we believe that the following revision would make the fourth sentence of paragraph 5 more meaningful:

The form of the audit program and the extent of its detail are subject to the auditor's judgment and will vary.



Mr. J. Eric Nicely
July 6, 1995
Page 2

Proposed Changes to “Special Reports”

The parenthetical under the heading mistakenly indicates that the proposed change *supersedes* rather than *amends* the relevant paragraphs of SAS Nos. 1 and 62.

SAS No. 62, Paragraph 5f – Although not addressed by the proposed change, we believe this paragraph should be modified to be consistent with the example report in paragraph 8 of AU sec. 623. The example report indicates that the use of the report is restricted while paragraph 5f indicates that the distribution of the report should be restricted. Because of the practical difficulties associated with attempting to restrict the distribution of a report, we suggest changing “distribution” to “use” in the paragraph and adding “use or” in front of “distribution” in footnote 4 to the paragraph.

Proposed Change to “Attestation Standards”

The guidance on working papers in the auditing standards is part of the guidance on fieldwork standards. Accordingly, we prefer changing the proposed new paragraphs 71 through 74 to new paragraphs 45 through 48.

Paragraph 71 – We believe the following revision to the second sentence of this paragraph would make it more meaningful:

Although the quantity, type, and content of working papers **are subject to the auditor’s judgment and will vary** with the circumstances, ...

We suggest that the wording of 71.a. be revised to parallel that of AU sec. 339.05a. as follows:

The work has been adequately planned and supervised, **indicating observance of the first standard of fieldwork.**

We believe that guidance similar to that provided in AU sec. 339.03 would be useful to practitioners. Accordingly, we suggest the following paragraph be inserted after the proposed new paragraph 71:

“Working papers are records kept by the practitioner of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement. Examples of working papers are work programs, analyses, memoranda, letters of confirmation and representation, abstracts of the entity’s documents, and schedules or commentaries prepared or obtained by the practitioner. Working papers also may be in the form of data stored on tapes, films or other media.”

Paragraph 72 – We suggest that the Board provide guidance on working paper access issues with respect to attestation engagements by adding a footnote to paragraph 72 as was done in paragraph 30 of the proposed SSAE No. 4, *Agreed-upon Procedures Engagements*, as follows:

Mr. J. Eric Nicely
July 6, 1995
Page 3

FN# For guidance on requests from regulators for access to working papers, see the Interpretation, "Providing Access to or Photocopies of Working Papers to a Regulator" (AICPA Professional Standards, vol. 1, AU sec. 9339).

* * * * *

We appreciate the opportunity to provide our comments and suggestions on the Proposed Statement.

Very truly yours,


KPMG Peat Marwick LLP



July 3, 1995

J. Eric Nicely
Practice Fellow
Auditing Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Nicely:

Re: File No. 2121

We are pleased to comment on the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, *Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements - 1995* (the "proposed amendments"). We support the issuance of the proposed amendments to AU 311, AU 341, AU 544, AU 623 and AT 100. However, we do have the following recommendation to improve the clarity of the proposed amendment to AU 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

AMENDMENT TO AU 341

The footnote to paragraph AU 341.13 states that the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern, and then provides an example of inappropriate language. The example provided, however, contains two inappropriate clauses: "If the company continues to suffer recurring losses from operations and continues to have a net capital deficiency" and "there may be substantial doubt." Auditors may believe that by changing "there may be" to "there is" substantial doubt, the example language would then be acceptable under the Professional Standards. Accordingly, we recommend that another example, such as one of the following, also be added to the footnote or that the existing example be revised:

Unless the company obtains adequate financing, there is substantial doubt about the entity's ability to continue as a going concern.

The company has been unable to renegotiate its expiring credit agreements. Without such financial support, there is substantial doubt about its ability to continue as a going concern.

July 3, 1995
J. Eric Nicely
Page 2

Please contact John A. Fogarty [(203) 761-3227] if you have any questions or if there is any other way in which we might be helpful.

Sincerely,

Deloitte & Touche LLP

July 5, 1995

Mr. J. Eric Nicely, Practice Fellow
Auditing Standards Division, File 2121
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

**Omnibus Statement on Auditing Standards and
Statement on Standards for Attestation Engagements—1995**

Dear Mr. Nicely:

Ernst & Young supports the efforts of the Auditing Standards Board to amend various sections of the Statements on Auditing Standards and the Statements on Standards for Attestation Engagements as contained in the exposure draft Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, *Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements—1995*. We believe that the exposure draft provides improved guidance in the four areas to which it relates.

Sincerely,

Ernst & Young LLP

Price Waterhouse LLP



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July 5, 1995

J. Eric Nicely
Practice Fellow
Auditing Standards Division
File 2121
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Proposed Omnibus Statement - 1995

Dear Mr. Nicely:

We support the Auditing Standards Board's proposed Omnibus Statements - 1995.

Sincerely,

Price Waterhouse LLP

National State Auditors Association

21

OFFICERS AND EXECUTIVE COMMITTEE

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ANTHONY J. VERDECCHIA
Legislative Auditor
1202 State Office Building
Baltimore, MD 21201
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President-Elect
DANIEL G. KYLE
Legislative Auditor
Louisiana

Secretary-Treasurer
R. THOMAS WAGNER, JR.
Auditor of Accounts
Delaware

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Auditor General
Michigan

BARBARA J. HINTON
Legislative Post Auditor
Kansas

July 10, 1995

J. Eric Nicely, Practice Fellow
Auditing Standards Division, File 2121
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Nicely:

On behalf of the National State Auditors Association (NSAA), we appreciate the opportunity to respond to the Exposure Draft (ED), *Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements - 1995*. The following comments are based on the individual responses we received and are not intended to represent the views of all individual members. Individual state auditors are encouraged to comment separately.

After reviewing the ED, we are in general agreement with the proposed changes. Our comments on the four specific issues proposed for revision are discussed in the sections that follow.

Planning and Supervision (SAS No. 22)

We fully support the proposed change to require a written audit program for every audit. We believe requiring a written audit program for all audits is reasonable and desirable. Written audit programs are fundamental to a well planned and properly managed engagement.

The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (SAS No. 59)

We concur with the proposed change precluding the use of conditional language in the auditor's conclusion about the entity's ability to continue as a going concern. SAS No. 59 requires the auditor to **reach a conclusion** about whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, thus making it unnecessary to use conditional language.

Special Reports

Assuming the proposed revisions do not apply to financial statements prepared using the cash basis of accounting, the majority of our members believe the proposed changes will have minimal, if any, impact on the audits they conduct. However, as described below, two states indicated they will encounter some unique problems associated with the proposed revisions. We ask that the Auditing Standards Board ("Board") consider these unique problems as it deliberates changes for the final Statement.

First, one state auditor mentioned that while the proposed language change does little harm to existing standards, the language cannot, and will not, control the use and distribution of these reports in his state. The following are examples of such reports in this state:

- State agencies, on an annual basis, prepare financial statements prescribed by the state accounting office. These financial statements are prepared on a budget basis that differs from generally accepted accounting principles. Under state law, the statements are filed with the division of administration and the state auditor where they become a public document, subject to unlimited distribution and use. Once submitted to the division and the auditor, the state agency and the auditor have little control over the use of these financial statements.
- Housing authorities, on an annual basis, prepare financial statements using accounting principles prescribed by the U.S. Department of Housing and Urban Development (HUD). These financial statements are filed with HUD and the state auditor where they become public documents and are subject to unlimited distribution and use. Again, the housing authorities and their auditors have little control over the financial statements, their distribution, and/or use once filed with these public entities.

The standards should recognize that some reports filed with regulatory agencies are controlled by state and federal laws and regulations.

Another state auditor indicated the proposed changes will directly affect his audits of various insurance enterprises, specifically the state's Patients Compensation Fund, Local Government Property Insurance Fund, and State Life Insurance Fund. Financial statements for these enterprises are prepared on the regulatory basis of accounting prescribed or permitted by the state's commissioner of insurance. The state auditor is statutorily required to perform a financial audit on each of these insurance funds at least every three years and to provide the report for each insurance fund to the legislature's joint legislative audit committee and other interested parties. This state auditor believes the revised names of the financial statements, current auditor's report, and notes to the financial statements clearly indicate that these statements are not prepared on a

GAAP basis, adequately explain the regulatory basis of accounting, and describe how the regulatory basis differs from the GAAP basis.

It is understood the National Association of Insurance Commissioners (NAIC) will be issuing a codified statutory basis of accounting for all insurance enterprises in the United States. This will be a more standardized comprehensive basis of accounting when compared to current practice, which has different bases of accounting prescribed or permitted by each state's insurance department. It appears that the NAIC-codified statutory accounting may be a more appropriate basis of accounting for the financial statements of insurance enterprises, and this state auditor does not believe the current language in the auditor's report should be revised. The regulatory statements for companies in some industries, such as insurance, can be more useful and more comparable than GAAP statements.

There is also concern that the auditor would need to control the use of his report based on where the financial statements were to be distributed, because two different auditor's reports would need to be issued on the same set of regulatory financial statements depending on the destination. The auditor's report could be unqualified if the regulatory statements are distributed internally or to the regulatory agency only, but would be qualified for a material departure from GAAP if the regulatory statements are distributed to anyone other than the regulatory agency. It may be confusing to have two different auditor's reports on the same set of regulatory financial statements, and a third type of auditor's report on the GAAP-based financial statements.

Attestation Standards

We agree with the proposed guidance. It is reasonable to expect a practitioner to prepare and maintain working papers which indicate that the work was adequately planned and supervised and that evidential matter was obtained to provide a reasonable basis for the conclusions expressed in the practitioner's report.

However, in considering the topic of working papers, we believe technology is allowing our society to gradually move away from paper documents. As a result, we believe future consideration should be given to allowing electronic documentation of audit work.

Effective Dates

In reviewing the ED, we noted that the four proposed changes contained different effective dates. The proposed change to "Planning and Supervision" would be effective for engagements for fiscal years ending after September 15, 1995; the proposed change to "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern" would be effective for reports issued after September 30, 1995; the proposed changes to "Special Reports" would be effective for audits for

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periods beginning after December 15, 1995; and, the proposed change to "Attestation Standards" would be effective for engagements beginning after September 30, 1995. If the Board intends to issue an omnibus Statement on Auditing Standards and a separate Statement on Standards for Attestation Engagements, one common effective date would greatly simplify the implementation process for the user.

We appreciate the Board's efforts on this project and the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kinney Poynter of NASACT at (606) 276-1147 or me at (410) 225-1400.

Sincerely,

A handwritten signature in cursive script that reads "Anthony J. Verdecchia". The signature is written in dark ink and is positioned to the left of the typed name.

Anthony J. Verdecchia
President