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Auditing Standards Division: Responsibilities, Authority & Structure & Projects...

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Auditing Standards Division:
responsibilities, authority
& structure & projects...
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To the Commission on Auditors'
Responsibilities

Enclosed are background materials on the operations of the AICPA's Auditing Standards Division. One paper describes the objectives, responsibilities, functions, and authority of the Division and presents factual information on its present composition. The other paper lists the projects of the executive committee in the last ten years and identifies the inception, objectives, and disposition of those projects. The ten-year period is longer than the experience of present staff and committee members and the files on projects undertaken in earlier years are not complete. Consequently, the details concerning the inception of early projects may not be precise in every case.

D.R. CARMICHAEL 

DRC:cys

Encls.

AUDITING STANDARDS DIVISION
RESPONSIBILITIES, AUTHORITY AND STRUCTURE

INTRODUCTION

The Auditing Standards Division is the Institute's policy-setting body on auditing and reporting matters. The Division's auditing standards executive committee is the Institute's oldest standing technical committee, created on January 30, 1939, when the Institute authorized the appointment of a committee "to examine into auditing procedure and other related questions...." (The name of the committee was changed from the committee on auditing procedure in 1972.) In its 36 years of existence, 58 auditing statements and numerous audit guides and auditing interpretations have been issued.

The Division's general sphere of activity is the independent auditor's function of examining and reporting on financial statements, but its sphere of influence is much broader. No matter how carefully the Division adheres to the bounds of auditing, it inevitably affects the direction of accounting principles. Of obvious effect are the numerous matters of disclosure covered in auditing pronouncements. Less obvious are the accounting ramifications of those pronouncements. For example, until the FASB promulgates a pronouncement on the topic, the criteria for recording in financial statements the effects of events occurring after the balance sheet date are to be found in a Statement

on Auditing Standards -- not an APB Opinion.

At any given time, the Division has a wide variety of problems under consideration. Those problems range from questions of audit administration to those of public reporting. Currently, they include reporting on forecasts, reporting on price-level information, auditing related party transactions, using nonaccounting specialists, and the concept of "present fairly." The committee's agenda also includes topics, such as the auditor's responsibility for detecting irregularities and developing standards for auditor involvement in interim financial reporting, that go to the heart of the present debate on the CPA's proper role in the financial community.

STRUCTURE OF DIVISION

The Division consists of an executive committee, subcommittees, task forces, and staff having responsibility for the Institute's activities in the area of auditing and reporting.

Auditing Standards Executive Committee. The executive committee as a senior technical committee is authorized to publish its views on its own authority without clearance from the AICPA's Council or the Board of Directors. Pronouncements of other AICPA committees that include reference to auditing and reporting matters must be cleared with the chairman of the Division.

The Division's executive committee consists of 21 members, all of whom are members of the AICPA. At the present time, 19 members are in public practice, one is an academician, and one is with the government. Traditionally, eight of the public practice seats are occupied by partners of the eight largest firms in the profession.

Members of the executive committee are appointed annually by the Chairman of the Board of the Institute, with the approval of the Board of Directors. Each member serves at the pleasure of the Chairman of the Board during his term in office and normally would not be reappointed more than twice. Terms of members are arranged so that normally no more than one-third would be new on the committee each year.

All committee members, including the chairman, serve on a part-time basis. Members are told on appointment that they should expect to devote about one-third of their time to the committee's work. Many committee members are supported by an advisor, who usually attends committee meetings, and other support is provided by their respective firms. None of the work is compensated by the AICPA. Out-of-pocket expenses of members are reimbursed by the Institute if requested. Usually reimbursement is not requested.

Planning Subcommittee. The planning subcommittee is appointed by the chairman, consisting of the Division's chairman and other executive committee members, to act as a planning

and steering committee for the Division and to deal with administrative matters as appropriate. The subcommittee sets priorities and monitors the Division's efforts.

Task Forces. Constituent task forces are appointed by the Division chairman as needed to develop and draft recommendations for consideration by the executive committee. Such groups usually include at least one executive committee member to act as chairman but may also include non-executive committee members and non-Institute members, acting in a consulting capacity, whose expertise or views would be useful.

Subcommittees. Standing subcommittees that have a continuing function, such as statistical sampling and stockbrokerage, are appointed annually by the Institute's Chairman of the Board. Subcommittee members serve at the pleasure of the Chairman of the Board during his term in office and usually would not be reappointed more than twice. Terms of members are arranged so that normally no more than one-third would be new to the subcommittee each year. Most members are drawn from AICPA members in practice.

Other Task Forces. Other task force, such as insurance auditing, are appointed by the chairman of the Division to deal with auditing problems of a particular industry or type of practice. Frequently an industry task force is charged with preparing an audit guide. Task force members serve at the pleasure of the chairman during his term in office and

they continue to serve until their charge is completed. Normally, members of industry task forces are not members of the executive committee. Most members are drawn from AICPA members in practice and they are usually specialists in the area relevant to the task force's charge.

Staff. The staff is responsible for providing administrative and technical assistance to the Division's executive committee, subcommittees, and task forces. The staff of the Auditing Standards Division, provided by the AICPA, is headed by a director. In addition, the present staff includes five managers, one assistant manager, one consultant, and four clerical assistants.

RESPONSIBILITIES AND AUTHORITY OF THE DIVISION

The Division has the authority to establish Institute technical policies in the areas of auditing and reporting standards which includes matters relating to generally accepted auditing standards, auditing procedures, practices and methods, and the form and content of auditors' reports. The Division usually undertakes projects on its own initiative, with the direction of the planning subcommittee. The Division determines how to complete assigned tasks. The Division issues various forms of pronouncements in the areas of auditing and reporting. The more common forms are Statements on Auditing Standards, Auditing Interpretations, and Audit Guides.

Statements on Auditing Standards. Statements on Auditing Standards establish enforceable standards to be adhered to by AICPA members. That authority is described as follows in Rule 202 of the Code of Professional Ethics:

A member shall not permit his name to be associated with financial statements in such a manner as to imply that he is acting as an independent public accountant unless he has complied with the applicable generally accepted auditing standards promulgated by the Institute. Statements on Auditing Standards issued by the Institute's auditing standards executive committee are, for purposes of this rule, considered to be interpretations of the generally accepted auditing standards, and departures from such statements must be justified by those who do not follow them.

Statements on Auditing Standards are the only authoritative auditing pronouncements comprehended by Rule 202. Other Division pronouncements are authoritative insofar as they express what is considered the best professional thought on the particular subject, but they are not covered by Rule 202. Members that depart from the other pronouncements, however, may be called on to justify their departures should they be involved in litigation.

A draft of a Statement on Auditing Standards is usually prepared for committee consideration by a task force created for that specific topic. If the executive committee approves public exposure of the draft, an exposure period of 60 days normally is allowed. Approximately 25,000 exposure drafts are mailed to various individuals and groups including all practice offices of firms that have Institute members and other interested parties, such as state societies, the SEC, and stock exchanges. Any individual will be placed on the interested parties list to receive exposure drafts of statements on request. After the 60 day exposure period, the task force, after considering the comments received, usually prepares a final draft for the executive committee's approval.

A two-thirds vote is required to publicly expose a draft Statement on Auditing Standards and to approve a Statement on Auditing Standards. For approval of a Statement, dissents are tallied for each paragraph separately. Thus eight dissents to a proposed Statement would not necessarily prevent issuing the Statement. Only if the eight dissenting votes pertain to the same paragraph or are dissents to the entire document would the Statement not be approved. Traditionally, however, very few Statements have been issued with more than a few dissents.

Auditing Interpretations. Auditing Interpretations deal only with matters on which the committee has previously pronounced and which seem to require some clarification.

They are prepared by the staff and are published in the Journal of Accountancy. Before publication, they must be approved by the president of the AICPA, the chairman of the Division, and the director of the Division. Frequently, the chairman seeks the advice of selected members of the executive committee or the entire committee.

Audit Guides. The Division prepares and issues guides that deal with auditing and reporting for particular circumstances or industries that have unique characteristics that require special attention and consideration. Guides have been issued on various types of enterprises, such as saving and loan associations, investment companies, colleges and universities, and voluntary health and welfare organizations.

Audit Guides require the approval of two-thirds of the committee, subcommittees, or task forces that prepare the guide before submitting an exposure draft of a guide to the respective senior technical committee. Clearance by the chairman of the auditing standards executive committee is required. He may seek the advice of a task force of the executive committee before clearing a document. Clearance is based on a review of the proposed guide to determine whether it is consistent with public statements previously made or under consideration by the auditing standards executive committee. If the guide includes a description of accounting practices in the industry, it must also be cleared with the chairman of the accounting standards executive committee.

Other Division Responsibilities. In addition to technical policies on auditing and reporting, the Division is responsible for the following:

1. Preparing comment letters to groups outside the AICPA, such as the SEC or other agencies or groups, concerning generally accepted auditing standards; auditing procedures, practices and methods; and the form and content of auditors' reports.
2. Clearance by the Division's chairman of references to auditing and reporting matters included in pronouncements or statements to be issued by other AICPA divisions.
3. Maintaining liaison with other AICPA divisions concerning activities relating to auditing and reporting.
 - a. Commenting when requested on pronouncements of other divisions that may affect the work of the auditing standards executive committee including:

Accounting Standards

Federal Taxation

Federal Technical Liaison

Management Advisory Services

Professional Ethics

- b. Initiating proposals to other divisions to develop pronouncements on matters that the Division believes need attention.
- c. Requesting research projects to be carried out by the Technical Research Division.

FUNCTIONS OF STAFF

The staff, in fulfilling their responsibility of providing technical and administrative assistance to the Division, is responsible for the following:

- 1. Provide direct support to the executive committee, subcommittees, and task forces, including:
 - a. Gathering information relevant to Division's work and disseminating it.
 - b. Analyzing information relevant for committees, subcommittees and task forces.
 - c. Assisting in developing authoritative pronouncements by assisting in (1) planning the development of the pronouncement, (2) identifying the issues, (3) identifying alternative solutions, (4) assessing the need for research, (5) performing research, and (6) evaluating the effect of specific recommendations on the profession.

- d. Technical writing in preparing drafts of authoritative pronouncements and comment letters.
2. Coordinate, plan and administer the activities of the Division.
3. Establish and maintain effective communication with other divisions of the Institute.
4. Draft auditing interpretations.
5. Alert planning subcommittee and provide technical analysis when possible of developments that might affect the profession.

DIVISION SUBCOMMITTEES AND TASK FORCES

The Division's executive committee is charged with continuing the development and interpretation of auditing standards. Subcommittees and task forces have been delegated responsibility for specific aspects of that charge.

The Division's subcommittees are:

1. Planning
2. Relations with Actuaries
3. State and Local Government Auditing
4. Statistical Sampling
5. Stockbrokerage Auditing

The Division's task forces include:

1. Defense Contract Agencies
2. Guide for Preparing Audit Programs
3. Health Care Institutions
4. Insurance Auditing
5. Program for Single Audit of Mortgage Bankers

In addition to those subcommittees and task forces, approximately two dozen executive committee task forces normally are working on projects, most of which are expected to result in Statements on Auditing Standards. Present task forces are:

1. Common Trust Funds
2. Communications with Predecessor Auditors
3. Forecasts
4. Going Concern
5. Guide for Preparing Audit Programs
6. International Reporting
7. Interim Financial Information
8. Lawyers' Letters
9. Nonaccounting Specialists
10. Noncompliance with Laws and Regulations
11. Operational and Management Auditing
12. Other Information
13. Present Fairly
14. Price-Level

15. Prior Year's Financial Statements
16. Proforma Financial Information
17. Purport to Present
18. Real Estate Investment Trusts
19. Related Parties
20. Responsibility to Detect Irregularities
21. Supervision--Field
22. Using the Work of Internal Auditors
23. Using the Work of Other Auditors

AUTHORITATIVE PRONOUNCEMENTS

Below is a listing of the authoritative auditing pronouncements issued by the Division. Included in this listing are Statements on Auditing Standards, Audit Guides, and Auditing Interpretations.

Statements on Auditing Standards

- No. 1 Codification of Auditing Standards and Procedures
(November 1972).
- No. 2 Reports on Audited Financial Statements (October 1974).
- No. 3 The Effects of EDP on the Auditor's Study and Evaluation of Internal Control (December 1974).
- No. 4 Quality Control Considerations for a Firm of Independent Auditors (December 1974).

The following proposed Statements on Auditing Standards are presently in the exposure stage:

1. Communication Between Predecessor and Successor Auditors (February 1, 1975)

2. Other Information in Documents Containing Audited Financial Statements (March 15, 1975).
3. Related Party Transactions (March 15, 1975).
4. The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the independent Auditor's Report (March 1, 1975).

Other executive committee task forces are at various stages of completion.

Audit Guides

Seventeen guides have been issued by the Division.

They are as follows:

1. Audits of Banks, Including Supplement, Committee on Bank Accounting and Auditing, 1969.
2. Audits of Brokers and Dealers in Securities, Committee on Stockbrokerage Auditing, 1973.
3. Audits of Colleges and Universities, Committee on College and University Accounting and Auditing, 1973.
4. Audits of Construction Contractors, Committee on Contractor Accounting and Auditing and the Committee on Cooperation with Surety Companies, 1965.
5. Audits of Employee Health and Welfare Benefit Funds, Committee on Health, Welfare and Pension Funds, 1972.

6. Audits of Finance Companies, Committee on Finance Companies, 1973.
7. Audits of Fire and Casualty Insurance Companies, Committee on Insurance Accounting and Auditing, 1966; Statement of Position, Revision of Form of Auditor's Report, Auditing Standards Division, July 1974.
8. Audits of Investment Companies, Committee on Investment Companies, 1973.
9. Audits of Personal Financial Statements, Committee on Personal Financial Statements, 1968.
10. Audits of Savings and Loan Associations, Committee on Savings and Loan Accounting and Auditing, 1973.
11. Audits of Service-Center-Produced Records, Committee on Computer Auditing, 1974.
12. Audits of State and Local Governmental Units, Committee on Governmental Accounting and Auditing, 1974.
13. Audits of Stock Life Insurance Companies, Committee on Insurance Accounting and Auditing, 1972.
14. Audits of Voluntary Health and Welfare Organizations, Committee on Voluntary Health and Welfare Organizations, 1974.

15. Guide for Engagements of CPAs to Prepare Unaudited Financial Statements, Task Force on Unaudited Financial Statements, 1975.
16. Hospital Audit Guide, Committee on Health Care Institutions, 1972.
17. Medicare Audit Guide, Committee on Health Care Institutions, 1969.

The following audit guides are presently in process:

1. Government Contracting
2. Property and Casualty Insurance Companies (Revision)
3. Pension Funds
4. Philanthropic Organization
5. Stockbrokerage Auditing (Revision)

Auditing Interpretations

The following auditing interpretations were prepared by the staff and appeared in the Journal of Accountancy on the dates indicated:

1. Adherence to Generally Accepted Accounting Principles
 - a. Accounting Principles Recommended by Trade Associations (November, 1974)
 - b. Effect on the Auditor's Opinion of FASB Statement on Research and Development Costs (December, 1974)

2. Consistency of Application of Generally Accepted Accounting Principles
 - a. Reporting on Consistency and Extraordinary Items (January, 1974)
 - b. Consistency of Interim and Annual Information (February, 1974)
 - c. Impact on Auditor's Report of FIFO to LIFO Change in the Earliest Year Reported on (December, 1974)
3. Evidential Matter
 - a. Evidential Matter for Interim Information (February, 1974)
4. Evidential Matter for Long-Term Investments
 - a. Evidential Matter for the Carrying Amount of Marketable Securities (January, 1975)
5. Evidential Matter for Receivables and Inventories
 - a. Evidence for Inventories at Interim Dates (February, 1974)
6. Reports on Internal Control
 - a. Scope of Special Study (January, 1973)
 - b. Explanatory Paragraph (January, 1973)
7. Reports on Internal Control Based on Criteria Established by Governmental Agencies
 - a. Pre-Award Surveys (January, 1973)

- b. Post-Award Surveys (January, 1973)
 - c. Audit Engagements (January, 1973)
 - d. Knowledge of Other Weaknesses (January, 1973)
 - e. Limited Scope (January, 1973)
 - f. Statutory Reporting Requirements (January, 1973)
8. Subsequent Events
- a. Lawyers' Letters (January, 1975)
9. Unaudited Financial Statements
- a. Disclosure in Internal Use Unaudited Statements (May, 1972)
 - b. Annual Report Disclosure of Interim Data (February, 1974)
 - c. Unaudited Financial Statements in Listing Applications (July, 1974)

The staff is currently preparing the following interpretations:

- 1. Alternative Procedures for Observation of Physical Inventories
- 2. Auditor's Reports for Filing with Insurance Regulatory Agencies
- 3. Reports on Internal Control on Forms Prescribed by Municipal Agencies

4. Subsequent Discovery of Misapplication of Generally Accepted Accounting Principles or Generally Accepted Auditing Standards

PROJECTS PRESENTLY IN PROCESS OR COMPLETED BY
THE AUDITING STANDARDS EXECUTIVE COMMITTEE¹
(SEPTEMBER 1965 - JANUARY 1975)

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
Real Estate Investment Trusts	January, 1975 K. P. Johnson	To resolve auditing and reporting problems that have arisen in this area.	To develop auditing procedures and reporting guidelines for unique aspects of examinations of REITs.	Not Determinable
International Reporting	Expanded in January, 1975 K. P. Johnson	To recognize the AICPA's commitment to the International Accounting Standards Committee.	To explain the circumstances when it may be necessary for an independent auditor to identify in his report the nationality of the accounting principles used in preparing the financial statements being examined and the nationality of the auditing standards used in examining those statements. The SAS should also provide guidance on disclosures that should be evaluated by the auditor when financial statements are used internationally.	SAS April, 1976 (E)
[International Reporting]	October 1973 E. L. Hicks	To recognize the expanding practice of auditing financial statements used internationally.		

¹ The projects are presented in the order of their date of inception with the most recent one presented first. The items in brackets [] are in non-chronological order and indicate the relationship between current and previous projects.

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
Non-Compliance with Laws and Regulations	December, 1974 K. P. Johnson	Request from Mr. Johnson to recognize a current practice problem	To examine responsibilities of independent auditors for detecting and disclosing client's non-compliance with laws and regulations in examinations performed in accordance with generally accepted auditing standards.	SAS June 1976 (E)
Responsibility for client's Acts (Special Committee appointed by the president of the Institute)	December 1958. R. S. Bock	Statement by the English Institute on "Unlawful Acts or Defaults by the Clients of Members," published in the December 1957 Journal of Accountancy	To develop a statement for the guidance of the Institute membership regarding the accountant's responsibilities when he discovers, or thinks he may have discovered, evidence that his client has acted unlawfully.	Project was put into limbo, probably because of a letter from AICPA legal counsel to the AICPA President. (December 27, 1961)
Response to SEC on Release No. 5549 Concerning Interim Financial Information	December 1974 K. P. Johnson	SEC Release No. 5549, "Notice of Proposals to Increase Disclosure of Interim Results By Registrants."	To develop a response to the SEC on Release No. 5549 for the consideration of the Auditing Standards Division and the Accounting Standards Division.	Letter to be written to the SEC April 30, 1975 (E)
Evidential Matter for Investments	December 1974 K. P. Johnson	Letter from the chairman of the Insurance Auditing task force asking for specific guidance in this area. The SEC had requested the insurance auditing task force to act.	To develop guidance on the auditing procedures for obtaining evidential matter supporting the carrying amount of investments, including marketable securities, mortgages, real estate, etc., and the evaluation of the adequacy of disclosure of such investments. Special considerations should be given to the problems of industries such as casualty insurance, that have significant amounts of investments.	Auditing Interpretation January 1975 K. P. Johnson
Going Concern	December 1974 K. P. Johnson	Request from Mr. Johnson to recognize a current practice problem.	To develop audit procedures for the independent auditor's consideration of the status of a company as a going concern.	SAS October 1976 (E)

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
Guide for Preparing Audit Programs	December 1974 K. P. Johnson	Request from the Society of Louisiana Certified Public Accountants (December 27, 1973) on the need for the publication of (1) an audit guide, or (2) a series of audit programs for "specialized industry" clients	To prepare standardized guidelines for the preparation of audit programs. Consideration should be given to the feasibility and desirability of standardized audit programs for major types of business (manufacturing, retailing, etc.) or the possibility of generalized case studies of audits	Not Determinable August 1976 (E)
Pension Funds (Joint Task Force of The Accounting Standards Division and the Auditing Standards Division)	December 1974 K. P. Johnson	To succeed the Health, Welfare and Pension task force; Employee Retirement Income Security Act of 1974	To isolate questions concerning auditing standards in the development of an audit guide on Pension Funds, such as using the work of nonaccounting specialists (actuaries) and evidential matter for the carrying amount of investments.	Not Determinable.
Cooperation with Continuing Professional Education	December 1974 K. P. Johnson	Request from the Continuing Professional Education Division	To evaluate the proposed auditing curriculum framework of the Continuing Professional Education Division	L. L. Hicks to CPD Division March 1975
Responsibility to Detect Irregularities	October 1974 E. L. Hicks	Response to current criticism of SAS No. 1, particularly as a result of Equity Funding.	To examine responsibilities of independent auditors for detection of intentional and unintentional errors or irregularities in examinations performed in accordance with generally accepted auditing standards.	SAS June 1976 (E)
[Equity Funding]	April 1973 E. L. Hicks	Equity Funding Case	To analyze the conclusions of this matter and to determine and recommend in light thereof the extent to which existing auditing procedures may be revised.	In April 1973, the project was handed over to a special committee appointed by the AICPA Board of Directors to study the Equity Funding situation.

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
Price-Level	Reactivated October 1974 K. P. Johnson	FASB action in this area.	To consider the scope and reporting requirements applicable to price-level data.	SAS February 1976 (E)
[Price-Level]	June 1969 J. L. Roth	APB Statement No. 3 "Financial Statements Restated for General Price-Level Changes" (June 1969)		Was placed on the inactive agenda in March 1971
Prior Years Financial Statements	August 1974 E. L. Hicks	Development of SAS No. 2 identified the need for coverage of this topic.	To develop reporting guidelines for a report covering both current and prior year's financial statements, including consideration of coverage of comparative statements in the scope paragraph and the impact of subsequent resolution of an uncertainty.	SAS April 1976 (E)
[Audit Supervision] (See next 2 projects listed below)	December 1971 T. L. Holton	Response to criticism of the general quality of practice of firms, particularly public remarks of James Needham, then a Commissioner of the SEC	To define and analyze the various elements of supervision, both on the engagement and administratively within the firm. Consideration should be given to the inclusion of the various elements of supervision in present GAAS.	Project was temporarily suspended in December 1972 pending a more definitive determination of the SEC's position. A questionnaire (August 5, 1973) relating to the project was sent to committee members and upon analysis, the need for two separate SAS's was ascertained (See next 2 projects below)
1. Quality control considerations for a firm of independent auditors (Supervision-Firm)	February 1974 E. L. Hicks	Analysis of questionnaire to committee members (August 8, 1973)	To identify policies and procedures of a firm of independent auditors that may affect the quality of work in its audit engagements and to set forth considerations in establishing policies and procedures.	SAS No. 4 December 1974 E. L. Hicks

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
2. Supervision-Field	February 1974 E. L. Hicks	Analysis of questionnaire to committee members (August 8, 1973)	To define and analyze the various elements of supervision in an audit engagement. Consideration should be given to the inclusion of the various elements of supervision in present generally accepted auditing standards	SAS April 1977 (E)
Pro-Forma Financial Information	February 1974 E. L. Hicks	Request of Chief Accountant of the SEC.	To consider the auditing procedures for reporting on pro-forma data and the nature of the report.	SAS April 1977 (E)
Communications With Predecessor Auditors	February 1974 E. L. Hicks	ASR No. 153, "In the matter of Touche Ross & Co." (February 1974)	To identify the nature and extent of communications that should take place between predecessor and successor auditors.	SAS June 1975 (E) (Exposure Draft, February 1, 1975)
Other Information	January 1974 E. L. Hicks	Request from Chief Accountant of the SEC in response to current SEC practice problems.	To consider the nature and extent of a CPA's responsibility when his report appears in a client's annual report to stockholders, particularly his course of action when information appearing in both the financial statements and the text of the report is not presented consistently.	SAS August 1975 (E) (Exposure Draft, March 15, 1975)
Using the work of Internal Auditors	December 1973 E. L. Hicks	Questions raised by the committee's development of an SAS on internal control evaluation identified the need for additional coverage.	To consider the effect of the work of internal auditors and internal control on the extent of application of audit procedures by the independent certified public accountant. Consideration should be given to standards of internal auditing which would have to prevail for the independent auditor to place reliance thereon.	SAS December 1976 (E)

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR EXPECTED (E)
Forms of Assurance	November 1973 E. L. Hicks	It was observed by members that a number of projects were currently being addressed by the committee that might require non-audit levels of assurance. These projects included: forecasting, interim financial statements, operational and management auditing, and other information.	To develop a concept of assurance levels for use when other related committee projects approached completion.	After some initial attempt to formulate a conceptual basis for the various levels of assurance without addressing individual problems, it became apparent to the task force that it would be more appropriate to consider levels of assurance within each of the individual projects under consideration by the executive committee. In effect, it was expected that when the projects previously mentioned reached a level of consensus as to the procedures to be employed and evidence to be accumulated, a more rational basis for determining the type of assurance to be given by the auditor, if any, would be more readily apparent than through a conceptual analysis.

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
Using the Work of Other Auditors	November 1973 E. L. Hicks	Letter from Chief Accountant of the DEC (11-6-73) in which he questioned the size of subsidiary companies not audited by the principal auditors in which they were relying on the reports of other auditors.	To consider whether the provisions of section 543 of SAS No. 1 should be revised as a result of consideration of whether: (1) The provisions of section 543 adequately express (a) the factors influencing the decision to report as principal auditor, and (b) the procedures the principal auditor should follow. (2) The criticism voiced by the Select Committee on Crime of the House in a report issued April 9, 1973 were valid. (3) An auditor of a subsidiary or other component should obtain information or assurances from the principal auditor and, if so, what the information or assurances should be.	SAS April 1977 (E)
Using the Work and Reports of Other Auditors	September 1969 J. L. Roth	Atlantic Acceptance Case	To establish guidelines for reporting on financial statements when the independent auditor utilizes the work and reports of other independent auditors who have examined the financial statements of one or more subsidiaries, divisions, branches, or other components included in the financial statements presented.	SAP 45 July 1971 T. L. Holton
Purport to Present Fairly (See next two projects listed on next page)	March 1973 E. L. Hicks	Letter from R. E. Kent (August 30, 1972) to T. L. Holton requesting that these topics be considered by the committee	Review the professional accounting and auditing literature for instances in which "purport to present" is used Report to the committee conclusion as to whether continued use of the expression in auditing literature is useful. If changes are recommended, the subcommittee should develop them and propose them to the committee.	

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
<p>1. The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report</p>	<p>October 1973 E. L. Hicks</p>	<p>Response to repeated questions of the meaning of the phrase in speeches and articles of CPAs and critics. That criticism was given added interest by Continental Vending.</p>	<p>To ascertain the origin of the term; define its meaning; study the implications for the profession of the use of the term in conjunction with GAAP and by itself.</p>	<p>SAS June 1975 (E) (Exposure Draft March 1, 1975)</p>
<p>2. Purport to Present</p>	<p>October 1973 E. L. Hicks</p>	<p>Request of a member as a result of reporting adopted for Price Control Forms.</p>	<p>To determine the meaning of the term in accounting literature with particular consideration to its use in special reports.</p>	<p>SAS October 1976 (E)</p>
<p>The Effects of EDP on the Auditor's Study and Evaluation of Internal Control</p>	<p>July 1973 E. L. Hicks</p>	<p>Recognition of the need for establishing auditing standards for an audit involving EDP.</p>	<p>Describe the effects of the use of EDP on the various characteristics of accounting control and on an auditor's study and evaluation thereof, and provide a framework for the development of further guidance concerning auditing procedures in examining financial statements of entities that use EDP in accounting applications.</p>	<p>SAS No. 3 December 1974 E. L. Hicks</p>
<p>[Reports on Internal Control Based on Criteria Established by Governmental Agencies]</p>	<p>November 1971 T. L. Holton</p>	<p>Federal agencies insisted on reporting more conclusive than SAP No. 49.</p>	<p>To supplement SAP No. 49 by dealing more specifically with reports on internal control based on criteria established by agencies in reasonable detail and in terms susceptible to objective application.</p>	<p>SAP 52 October 1972 T. L. Holton</p>
<p>[Reports on Internal Control]</p>	<p>June 1970 T. L. Holton</p>	<p>Initial practices of two large firms in reporting publicly on internal control adequacy of large N.Y. banks created the need for a uniform professional position.</p>	<p>To improve the understanding of internal control reports used by management, regulatory agencies, other independent auditors, or the general public, with reference to the nature and effectiveness of internal control and the independent auditor's evaluation of it.</p>	<p>SAP 49 November 1971 T. L. Holton</p>

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR ESTIMATED (E)
[The Auditor's Study and Evaluation of Internal Control]	October 1967 J. L. Roth	Member expressed the need for guidelines in this area (August 1966)	To amplify and clarify the application of the basic concepts and rationale comprehended by the second standard of field work in the light of subsequent developments in business and in the profession.	SAP 54 November 1972 T. L. Holton
Lawyers Letters	June 1973 E. L. Hicks	Article by Deer, "Lawyers Responses to Auditors' Requests for Information," the Business Lawyer, April 1973. Partially stimulated by similar activity in U.K.	To consider information pertinent to defining the lawyers' role and affect on audit evidence and procedures.	Commentary January 1974 E. L. Hicks Auditing Interpretation January 1975 K. P. Johnson SAS October 1975 (E)
Nonaccounting Specialists	February 1973 E. L. Hicks	Subject suggested by a committee member as a current practice problem.	To devise standards for measuring the adequacy of qualifications of experts on whom auditors may rely for evidence in performing audits; to develop a reporting format for nonaccounting experts which would be suitable for the review of auditors. Liaison should be maintained with similar groups of actuaries, lawyers, management consultants, etc.	SAS October 1975 (E)
Interim Financial Information	December 1972 E. L. Hicks	Issuance of APB Opinion No. 28 initiated questions by CPAs and SEC about the need for auditor involvement to see that provisions of Opinion No. 28 were followed.	To determine whether there may be limited procedures short of an audit as a result of which CPAs may give some assurance about interim financial data. To develop a report which would be suitable if interim statements are not fully audited.	SAS October 1975 (E)

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Operational and Management Auditing	November 1972 T. L. Holton	GAO "Yellow Book" "Standards for Audit of Governmental Organizations, Programs, Activities & Functions" (August 1972)	To give consideration to the standards applicable to audits of compliance, efficiency, economy, and effectiveness, such as explained in the GAO "Yellow Book," and to facilitate the CPA's involvement therein through the establishment of audit criteria which should exist for the CPA to report thereon.	Pending
Unaudited Financial Statements	June 1972 T. L. Holton	1136 Tenants' Corporation vs Max Rothenberg & Co.	To clarify and elaborate on the provisions of Section 516 of SAS No. 1, (SAP 38) "Unaudited Financial Statements."	Auditing Standards Division Guide March 1975
Unaudited Financial Statements	October 1964 A. J. Bows, Jr.	Requests from members and state societies for guidance in this area.	To develop guidance for an accountant when he is associated with unaudited financial statements	SAP 38 September 1967 J. L. Roth
Codification of Statements on Auditing Procedure	October 1971 T. L. Holton	With the issuance of seven new SAPs in 1971 alone, it became apparent that a consolidation of the SAPs was needed.	To incorporate into one book all of the substantive matters covered in Statements on Auditing Procedure Nos. 33 through 54. (No. 33, published in 1963, codified all Statements published earlier.)	SAS No. 1 November 1972 T. L. Holton
Reporting on Consistency and Accounting Changes	July 1971 T. L. Holton	APB No. 20 (July 1971) "Accounting Changes"	Identify accounting changes that involve the second standard of reporting and provide guidance to the independent auditor for applying this standard and for reporting when accounting changes have occurred.	SAP 53 November 1972 T. L. Holton

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Long-Term Investments	March 1971 T. L. Holton	APB No. 18 (March 1971) "The Equity Method of Accounting for Investments in Common Stock"	To furnish guidance in applying generally accepted auditing standards to examinations of the financial statements of companies with long-term investments accounted for under either the cost method or the equity method.	SAP 51 July 1972 T. L. Holton
[Long-Term Investments] Reporting on the Statement of Changes in Financial Position	February 1964 A. J. Bows, Jr. March 1971 T. L. Holton	Problems encountered by members in SBIC reporting APB No. 19 (March 1971) "Reporting Changes in Financial Position" (The expression "results of operations" in the auditor's report was not adequate to cover the Statement of Changes in Financial Position.)	To develop guidance for the independent auditor when he reports on SBIC. To revise the recommended short-form auditor's report in order to foster uniformity of language in giving recognition to the provisions of APB Opinion No. 19 in reporting on financial statements that purport to present financial position and results of operations.	SAP 34 September 1965 A. J. Bows, Jr. SAP 50 November 1971 T. L. Holton
Reports Following a Pooling of Interests	August 1970 T. L. Holton	Reporting problem resulting from APB Opinion No. 16, "Business Combinations," with regard to the change of ground rules regarding poolings.	To supersede Statement on Auditing Procedure No. 40, "Reports Following a Pooling of Interests" in order to make some technical changes as a result of the provisions of APB Opinion No. 16.	SAP 44 April 1971 T. L. Holton
[Reports Following a Pooling of Interests]	October 1964 A. J. Bows, Jr.	APB Opinion No. 10 Omnibus Opinion - 1966 Special Bulletin of the AICPA issued in October 1964 relating to disclosures of departures from Opinions of the APB.	To supersede paragraphs 35 and 36 of Chapter 8 of SAP No. 33, "Pooling of Interests" in order to make some technical changes as a result of APB Opinion No. 10.	SAP 40 October 1968 J. L. Roth

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Piecemeal Opinions	July 1970 T. L. Holton	Criticism concerning reporting practices of bank holding companies in bank periodical. (Bankers criticized CPAs in retaliation for applying APB Opinion No. 9 to banks.)	To identify the circumstances in which the auditor's expression of a piecemeal opinion may be appropriate and to clarify the scope of an examination necessary to support a piecemeal opinion, and to set forth the precautions which should be taken when a piecemeal opinion is expressed.	SAP 46 July 1971 T. L. Holton
Reports on Financial Statements Prepared Pursuant to Article 5A of Securities and Exchange Commission Regulation S-X	June 1970 T. L. Holton (Work on both an audit guide and an SAP were undertaken.)	Lack of guidance in reporting on financial statements prepared pursuant to the provisions of Article 5A of Regulation S-X.	To recommend practices which would result in the dissemination of more useful financial information by companies in the developmental stage and which would achieve a more consistent approach to reporting on such financial information by independent auditors.	The FASB put this topic on their agenda at the same time the final draft of this project was being prepared for approval. In order not to undercut the FASB project, the final draft was handed over to the FASB. (Exposure Draft, May 1972)
Forecasts	February 1970 T. L. Holton	Research draft on "Reporting on Forecasts of Future Development" prepared by the Committee on Management Services (September 1969) as a result of expanding practice in revenue bond prospectuses. Committee member identified as a current practice problem. Also problem identified by the staff of the SEC; SEC later issued ASR No. 115, "Certification of Financial Statements"	To determine whether criteria can be established for a CPA's review of a forecast. To develop a report to lend appropriate credibility to a forecast. To maintain liaison with other groups in the Institute interested in various elements of a forecast.	SAS June 1976 (E)
Reports on Audited Financial Statements (Degrees of Qualification.)	December 1969 T. L. Holton		To clarify and explain matters relating to the type of auditor's report to be issued in response to various circumstances (qualification disclaimer, or adverse opinion).	SAS No. 2 October 1974 E. L. Hicks

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Related Parties	February 1969 J. L. Roth	Original inception because of the continental Vending Case. Impetus added by SEC Accounting Series Release 153.	To define related parties and the auditing and reporting aspects of transactions with related parties.	SAS August 1975 (E) (Exposure Draft, March 15, 1975)
[Conflict of Interests]	October 1963	Section D (Insider Transactions in Portfolio Securities) of Chapter XI "Open-End Investment Companies (Mutual Funds)" from the Report of Special Study of Securities Markets issued in July 1963 by the SEC.	To define conflict of interests and develop guidelines for the independent auditor when he encounters an apparent conflict of interest during his examination.	Project was terminated by the committee in March 1965 because they felt the problem was a question of business ethics, corporate regulation, and stockholder relations, and not an audit problem.
Letters for Underwriters	January 1969 T. L. Holton	Bar Chris case and subsequent actions by underwriters.	<ol style="list-style-type: none"> 1. To state whether or not it is proper for CPAs acting in their professional capacity to comment on specified kinds of matters; and if so, what the form of comment should be. 2. To offer suggestions of a practical nature on such matters as forms of comfort letters suitable to various circumstances, the way in which a particular form of letter may be agreed upon, the dating of letters, and what steps may be taken when information which may require special mention in a letter comes to the accountant's attention. 	SAP 48 October 1971 T. L. Holton

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<p>[Letters for Underwriters] (Comfort Letters)</p>	<p>February 1964 A. J. Bows, Jr.</p>	<p>Request from members for guidance in this area.</p>	<p>To develop guidance for accountants when they are called upon to prepare letters for underwriters in connection with the distribution of securities.</p>	<p>SAP 35 November 1965 A. J. Bows, Jr.</p>
<p>Subsequent Events</p>	<p>October 1968 T. L. Holton</p>	<p>Bar Chris Case.</p>	<p>To discuss the types of subsequent events that require consideration by management and evaluation by the independent auditor.</p>	<p>SAP 47 September 1971 T. L. Holton</p>
<p>Confirmation of Receivables and Observation of Inventories</p>	<p>October 1967 J. L. Roth</p>	<p>Trend in business at that time of ignoring independent auditor's confirmation requests and the resulting increased use of alternative procedures by auditors; inconsistency of the special disclosure provisions of paragraph 27 of Chapter 10 of SAP 33 with the spirit of the extensions of auditing procedures. Paragraph 27 imposed disclosure requirements, even in situations where the procedure was "impracticable or impossible."</p>	<p>To provide additional guidelines for the independent auditor in confirming receivables and observing inventories and to modify existing reporting requirements.</p>	<p>SAP 43 October 1970 T. L. Holton</p>
<p>[Revision of "Extensions of Auditing Procedure" Relating to Inventories]</p>	<p>October 1965 J. L. Roth</p>	<p>The development since the issuance of the original "Extensions of Auditing Procedure" (SAP No. 1) in 1939, of more sophisticated inventory controls and methods of determining inventories, including statistical sampling techniques.</p>	<p>To develop guidance for the independent auditor when a company has established procedures (including statistical sampling) which may make it possible for the auditor to satisfy himself as to inventory quantities even though the client does not count every item of inventory every year.</p>	<p>SAP 36 August 1966 J. L. Roth</p>

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Negative Assurance	September 1967 J. L. Roth	Request from Advisory Task Force on Comfort Letters to make in-depth review and study of the various problems facing the profession with regard to negative assurance and draft a proposed SAP dealing with this matter.	To clarify when the use of negative assurance by the independent auditor is appropriate	A proposed SAS restricting the use of negative assurance to letters to underwriters, and reports on buy-sell agreements was submitted with a number of dissenting positions by the Task Force. In addition to this division on the part of the preparing group, projects or AudSEC agenda especially, forecasts, interim financial information and forms of assurance included considerations which when completed might require a level of assurance similar to so called negative assurance. With this in mind and no clear majority apparent for currently limiting this type of assurance, the project was tabled. (May 1973 E.L.Hicks)
Subsequent Discovery of Facts Existing at the Date of the Auditor's Report	December 1966 J. L. Roth	Yale Express Case	To establish procedures to be followed by the auditor who, subsequent to the date of his report upon audited financial statements, becomes aware that facts may have existed at that date which might have affected his report had he then been aware of such facts.	SAP 41 October 1969 J. L. Roth
Working Papers	January 1966 J. L. Roth	Lack of sufficient guidance in existing literature identified by committee members.	To provide guidance for the independent auditor regarding working papers for examination of financial statements or other engagements to which any of the generally accepted auditing standards apply.	SAP 39 September 1967 J. L. Roth

PROJECT TITLE	DATE OF INCEPTION AND CHAIRMAN	REASON FOR STARTING	OBJECTIVE	DISPOSITION/DATE ACTUAL OR EXPECTED (F)
Revision of the Short Form Auditor's Report	June 1965 J. L. Roth	Recommendation by the Special Committee on Opinions of the APB that the terminology of the auditor's report be improved.	To develop and recommend possible changes to the independent auditor's standard short form report.	<p>(F. I. Molton)</p> <p>(June 1972) Although a substantial consensus existed within the committee that a revision of the auditor's standard report was needed to more adequately portray the responsibilities of the independent auditor when expressing an opinion on financial statements, continuing efforts to arrive at a solution have failed for the following reasons:</p> <ol style="list-style-type: none"> Proposed revisions, while technically correct and accurate, were believed to be too self-serving for the accounting profession to ever be seriously considered as acceptable to the public or to regulators. Legal interpretations of the auditors function and role and responsibilities will probably not be altered by a statement issued at this time as to a more precise delineation of those attributes. Auditors, it is believed will be held to what others interpret to be his role, whether indeed that is his role. Recently the increasing effect and impact of "consumerism" in the judgment of most committee members present an unacceptable environment in which to attempt to describe the limitations of the independent auditor's responsibilities in a revised standard report.

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<p>Public Warehouses - Controls and Auditing Procedures For Goods Held (Special Report)</p> <p>Reporting When a Certified Public Accountant Is Not Independent</p>	<p>January 1964 A. J. Bows, Jr.</p> <p>December 1963 A. J. Bows, Jr.</p>	<p>Allied Crude Oil Matter (DeAngelis case)</p> <p>Opinion No. 15 of the Committee on Professional Ethics, "Independence."</p>	<p>To determine whether recommendations should be made with respect to auditing procedures applicable to goods stored in public warehouses.</p> <p>To clarify the responsibilities of the CPA when he is considered not independent and to specify the type of disclaimer of opinion which the accountant should express in such circumstances.</p>	<p>SAP 37 September 1966 J. L. Roth</p> <p>SAP 42 January 1970 T. L. Holton</p>