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Large Firms

Published for AICPA members in large firms. Opinions expressed in this supplement do not necessarily reflect policy of the AICPA.

Anita Dennis
supplement editor
973/763-2608
fax 973/763-7036
e-mail: adennis20@aol.com

Ellen J. Goldstein
CPA Letter editor
212/596-6112
egoldstein@aicpa.org

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Fraud ED Issued; Part of Larger Reconsideration of Audit Framework

Fraud ED Issued; Part of Larger Reconsideration of Audit Framework

The Auditing Standards Board has issued an exposure draft titled Consideration of Fraud in a Financial Statement Audit. This proposed statement establishes standards and provides guidance to auditors in fulfilling their responsibility as it relates to fraud in an audit of financial statements conducted in accordance with generally accepted auditing standards. The ED also includes Appendix B, "A Proposed Amendment to SAS No. 1, Codification of Auditing Standards and Procedures (AICPA, Professional Standards, vol. 1, AU section 230, 'Due Professional Care in the Performance of Work')."

This proposed statement does not change the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud (as described in AU sec. 110.01). However, it does establish standards and provide guidance to auditors in fulfilling that responsibility, as it relates to fraud.

The ASB believes that the requirements and guidance provided in the proposed statement, if adopted, would result in a substantial change in the auditor's performance and thereby improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit. The ASB also believes that the proposed statement's adoption would result in an increased focus on professional skepticism in the consideration of the risk of fraud in a financial statement audit.

Comments on the ED

All comments should be received by May 31, 2002. A copy of the exposure draft can be located at:

 www.aicpa.org/members/div/auditstd/drafts.htm

Written comments on the ED will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after June 30, 2002, for one year. Responses should be sent to Sherry Boothe, Audit and Attest Standards, File 2691, AICPA, 1211 Avenue of the Americas, New York, N.Y. 100368775 in time to be received by May 31, 2002. Responses also may be sent by e-mail:

 sboothe@aicpa.org

The Risk Assessment Process

The fraud ED is part of a broader effort by the ASB. The Risk Assessments Task Force, a joint effort of the ASB and the International Auditing Practices Committee, is reviewing the auditor's consideration of the risk assessment process in the auditing standards, including the necessary understanding of the client's business and the relationships among inherent, control, fraud and other risks. The task force is also

working on improving the standards to help auditors better link their risk assessment to the nature, timing and extent of auditing procedures that respond to the identified risks. Some of those involved expect the final standards to affect audits in a way that has not been seen since the "expectation gap" standards were issued in 1988.

Some of the more important expected proposed changes are:

- A requirement for a more robust understanding of the entity's business and environment that is more clearly linked to the auditor's assessment of the risk of material misstatement of the financial statements. Among other things, this will improve the auditor's assessment of risk and eliminate the "default" to assess risk at the maximum.
- Greater emphasis on the importance of entity controls with clearer guidance on what constitutes a sufficient knowledge of controls to plan the audit and with greater encouragement of control testing.
- A better understanding of how such processes as planning, assessing risk, and gathering and evaluating evidence are continuous throughout the audit rather than discrete phases of the audit.
- A clarification of how the auditor plans and performs auditing procedures differently to respond to various types of risks in order to obtain sufficient competent evidence to reduce audit risk to an acceptably low level.

These changes collectively are intended to improve the guidance on how the auditor applies the audit risk model.

What It Will Mean for Auditors

The ASB believes this new audit approach will result in many benefits to the auditor, including:

- Improved audit effectiveness. Through a more robust risk assessment process, the auditor will be able to better understand what risks are present, where material errors are most likely to occur in the financial statements and what auditing procedures are best suited to respond to detecting those errors.
- Improved audit focus. A more robust assessment of the risk of material misstatement of the financial statements should result in auditors focusing their attention on the sources and consequences of those risks, and at the same time, avoid overauditing in areas of low risk.
- Improved client service. A greater understanding of the client's business enables the auditor to add value to the audit from the client's perspective. The audit can provide insight and information that is valuable to the entity's management in its goal to successfully manage the business. This provides the auditor with the opportunity to differentiate his or her firm's audit from those offered by competitors.

Group B Changes Name to "AICPA Major Firms Group"

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Practitioners may know that the AICPA has three practice advisory committees:

- Group A, for firms with less than 50 AICPA members.
- Group B, for firms with 50 or more CPAs belonging to the Institute.
- Group C, consisting of the Big 5 accounting firms.

The committees offer forums in which firms can exchange views on issues particular to their practices to provide input to existing AICPA committees and boards.

Recently Group B, which has been an influential voice for large firms since the mid-1970s, has been renamed the AICPA Major Firms Group. The committee believes that the new name will empower the brand and better express the powerful advocacy the group provides for large firms. Major Firms Group members will be able to use the new name to increase their own marketability to clients as firms that are in close contact with thought leaders and standard setters for the profession.

IASB Proposes Amendment to IAS 19

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The International Accounting Standards Board (IASB) has published an exposure draft of a limited amendment to the pension accounting provisions of the standard IAS 19, Employee Benefits.

The IASB says that the profession has alerted the board to a counter-intuitive result produced by the interaction of two aspects of IAS 19--the option to defer gains and losses in the pension fund and the limit on the amount that can be recognized as an asset (the "asset ceiling"). The combination of the asset ceiling and the option for an entity to defer losses can in certain circumstances require the entity to report a profit increase. "Equally perverse," the IASB says, "the combination of the asset ceiling and the option for an entity to defer gains can require the entity to report a decrease in profit." The IASB concluded that reporting gains and losses in these circumstances is wholly inappropriate. The limited amendment would prevent their recognition.

The text of the ED, Amendment to IAS 19, Employee Benefits: The Asset Ceiling, is available on the IASB Web site:

 www.iasb.org

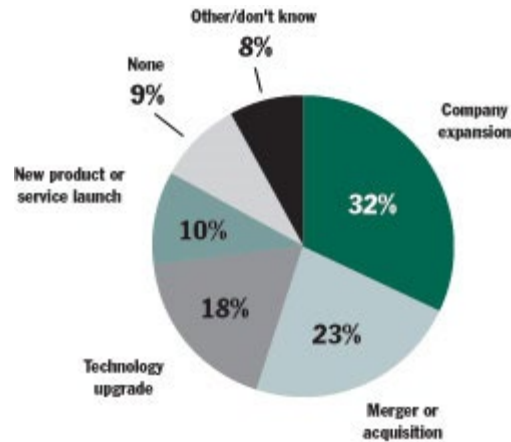
Copies (ISBN 0 905625 98 6) are available at 5, including postage, from IASB Publications Department, 7th floor, 166 Fleet Street, London, EC4A 2DY, United Kingdom.

 publications@iasb.org.uk

The First Thing to Go in Uncertain Times?

The First Thing to Go in Uncertain Times?

CFOs were asked, "Which one of the following initiatives would you most likely put on hold in an uncertain economy?"



Source: A survey commissioned by RHI Management Resources that included responses from 1,400 CFOs from a stratified random sample of U.S. companies with more than 20 employees.

GAO Issues New "Yellow Book" Independence Rules

GAO Issues New "Yellow Book" Independence Rules

Practitioners who are involved in government or not-for-profit engagements should be aware that the General Accounting Office has made significant changes to the auditor independence requirements under Government Auditing Standards. These standards, commonly referred to as the "Yellow Book," cover federal entities and organizations receiving federal funds. Various laws require compliance with the Comptroller General's auditing standards in connection with audits of federal entities and funds. Furthermore, many states and local governments and other entities, both domestically and internationally, have voluntarily adopted these standards.

While the new standard deals with a range of auditor independence issues, the most significant change relates to the rules associated with non-audit, or consulting services. Auditors can perform a range of services for their clients, but in some circumstances it is not appropriate for them to perform both audit and certain non-audit services for the same client. In these circumstances, the auditor and/or their client will have to make a choice as to which of these services they will provide.

The new independence standard for non-audit services is based on two overarching principles:

- Auditors should not perform management functions or make management decisions; and
- Auditors should not audit their own work or provide non-audit services in situations where the services involved are significant/material to the subject matter of the audit.

For non-audit services that do not violate the above principles, certain supplemental safeguards would have to be met. For example:

- Personnel who perform non-audit services would be precluded from performing any related audit work.
- The auditor's work could not be reduced beyond the level that would be appropriate if the non-audit work was performed by another unrelated party.
- Certain documentation and quality assurance requirements must be met.

The new standard includes an express prohibition regarding auditors providing certain bookkeeping/recordkeeping services, and limits payroll processing and certain other services, all of which are presently permitted under AICPA auditing standards. At the same time, the standard recognizes that auditors can provide routine advice and answer technical questions without violating these two principles or having to comply with the supplemental safeguards. The standard also provides examples of how certain services would be treated under the new rules.

According to Comptroller General David M. Walker, this new standard is the first of several planned steps in connection with non-audit services covered by the Yellow Book. For example, the Comptroller General plans to work with the Federal Accounting Standards Advisory Board, which develops generally accepted accounting principles for the federal government, to determine what type of additional disclosures relating to non-audit services may be appropriate. In addition, Comptroller General Walker has asked his Advisory Council on Government Auditing Standards to review and monitor this area to determine what, if any, additional steps may be appropriate.

Because of the breadth of changes in the new standards, they are applicable to all audits for periods beginning on or after Oct. 1, 2002. However, early implementation is encouraged.

The new audit standard is available on GAO's Web site:

 www.gao.gov/govaud/ybk01.htm

Other Proposed Changes to "Yellow Book"


Other Proposed Changes to "Yellow Book"

The General Accounting Office has proposed changes to Government Auditing Standards (GAGAS), commonly known as the "Yellow Book," beyond the independence rules. These changes propose revisions throughout the entire set of standards except for the second general standard, independence, which, as the above article notes, is being revised separately. The proposed revisions fall into three categories:

- GAGAS framework.
- Consistent application of the standards where applicable to the various types of audits.
- Strengthening or streamlining the standards.

Given the extensiveness of the proposed revisions, the GAO plans to issue a new version of GAGAS that will incorporate existing amendments. This revision of the standards is expected to supersede the 1994 revision, including amendments 1 and 2. Thereafter, the GAO will continue to issue amendments addressing specific issues as needed. It is expected that this revision, when finalized, will become effective for financial audits of periods ending on or after Jan. 1, 2003, and for attestation engagements and performance audits beginning on or after Jan. 1, 2003.

Copies of the exposure draft can be obtained from the U.S. General Accounting Office, Room 1100, 700 4th Street, NW, Washington, D.C. 20548 or by calling:

 202/512-6000

A marked version of the ED, which uses italicizing and bolding to identify potential added language and striking-out to identify potential deleted language from the 1994 revision of Government Auditing Standards, as currently amended, is available on the GAO's Web site:


 www.gao.gov/govaud/ybk01.htm

The GAO prefers that comments be sent via e-mail by Apr. 30 to:

 yellowbook@gao.gov

For additional information, call Marcia Buchanan or Cheryl Clark, both Assistant Directors, Financial Management and Assurance, at:

 Marcia Buchanan, 202/512-9321

 Cheryl Clark, 202/512-9377

Survey Reveals CPA Performance View Service Line Progressing Well

Survey Reveals CPA Performance View Service Line Progressing Well

A recent survey indicates that the performance measurement marketplace may hold promise for CPAs. Not only are the workshop attendees reporting that the positive impacts of the training have benefited themselves, their firms and their clients, but the financial results for both clients and practitioners also have been encouraging.

The AICPA began offering the CPA Performance View PLUS workshops in 2000. In these workshops, practitioners learn how to market and perform performance measurement consulting services. In two years, approximately 380 people have been through the workshops.

What Is It?

CPA Performance View is based on the performance measurement theory, which companies typically used to better manage their businesses and to better track efforts with results. By focusing on the critical success factors (CSFs) a business is in a better position to know how the business is progressing before the quarter or year is over. At the workshop, attendees learn how to work with their clients to determine the CSFs and create the system to capture the data and report it to management and the employees.


As with any new service, there will be some people who ultimately discover that it is not for them. Thus, we were interested in whether the workshop attendees thought performance measurement services would be part of their future. Of the 21 people

answering this question, 20 of them, or 95%, indicated that it would--quite a high retention rate.

A Growing and Satisfying Service

The CPA Performance View service line is not for everyone. It requires a change in focus from acting as the person who dispenses answers to the facilitator working with clients to help them find the answers. Depending upon the individual, this is not a change that everyone is looking to undertake. However, for those who have attended the workshops or learned how to deliver performance measurement services from another source, it is a growing and satisfying service, both for the clients and the CPA.

For more information:

 Ed Gregory, 212/5966268

 egregory@aicpa.org

 www.aicpa.org/performanceview

Suggested Readings

Suggested Readings

- Keeping Score: Using the Right Metrics to Drive World-Class Performance, Mark Graham Brown
- FASB, Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, 2001. www.fasb.org
- FASB, Business and Financial Reporting, Challenges from the New Economy, April 2001. www.fasb.org
- The Conference Board, New Corporate Performance Measures, 1995.
- The Conference Board, Communicating Corporate Performance: A Delicate Balance, 1997.
- Ernst & Young, Measures that Matter, 1997.
www.cbi.cgey.com/research/current-work/valuing-intangibles/measures-that-matter.html
- Ernst & Young, Measuring the Future: The Value Creation Index, 2000.
www.cbi.cgey.com/research/current-work/valuing-intangibles/value-creation-index.html

- KPMG, Achieving Measurable Performance Improvement in a Changing World: The Search for New Insights
www.kpmg.com/news/index.asp?cid=548
- PricewaterhouseCoopers, The ValueReporting Revolution, 2001.

Indicates the item is available at no charge on the Internet.

Recently Issued Auditing Documents

Recently Issued Auditing Documents

Following is a listing of recently issued auditing standards and other documents that may be helpful.

Statements of Position (SOPs)


- SOP 01-3, Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law (No. 014930CPA04). Effective upon issuance June 15, 2001.
- SOP 01-4, Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards (No. 014931CPA04). Effective for engagements to examine and report on aspects of an investment firm's compliance with, and/or examining and reporting on specific composite results in conformity with, the redrafted AIMR-PPS standards, the U.S. and Canadian version of GIPS. The SOP may not be applied to engagements in which the investment firm has not yet adopted the redrafted AIMR-PPS standards.


AICPA Audit Guides

- Analytical Procedures (No. 012551CPA04). Issued June 1, 2001.
- Auditing Revenue in Certain Industries (No. 012510CPA04). Issued June 1, 2001.
- Audit Sampling (No. 012530CPA04). Issued Apr. 1, 2001.
- Auditing Derivative Instruments, Hedging Activities, and Investments in Securities (No. 012520CPA04). Issued Mar. 15, 2001.

Order Information

To order, write: CPA2Biz Customer Service Center, CPA04, P.O. Box 2209, Jersey City, N.J. 073032209 or:

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