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# SAS no. 58: DID THE ASB REALLY LISTEN?

*Sharpen your pencils—  
the ASB wants your comments.*

**by Marshall A. Geiger**

**O**ne thousand-plus letters are a lot of mail. That's how many comments the American Institute of CPAs auditing standards board received when it proposed 10 new standards to help close the expectations gap between what auditors perceive as their responsibility and what the public thinks. Did the ASB really listen to these comment letters before finalizing nine SASs, or did it simply solicit the comments to fulfill the standard-setting, due-process procedures mandated by the AICPA board of directors?

This is an important question since a considerable amount of individual and firm resources go into responding to an exposure draft (ED). The exposure process is designed to allow interested individuals and firms to voice their positions on the issues and to give the ASB insights into the potential SASs by listening to views other than their own. The ASB should be responsive to the concerns of their constitu-

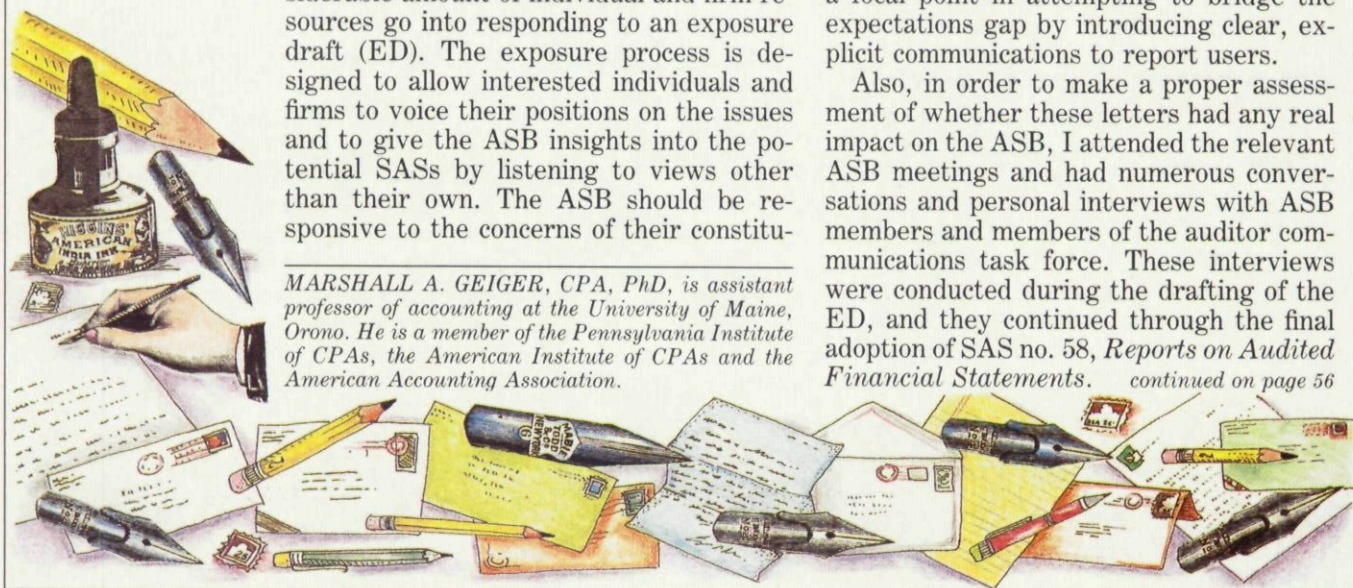
ents in deriving standards intended to govern all public auditors.

## **INDEPENDENT ASSESSMENT**

In order to assess whether the ASB actually did use the comment letters received during the ED process, I analyzed in detail the ones on the ED proposing a new standard audit report. The idea was to discern the stated concerns of respondents. I selected this ED because of the visibility of the auditor's report to both auditors and users of audit services. Modification of the long-standing standard report language also was a focal point in attempting to bridge the expectations gap by introducing clear, explicit communications to report users.

Also, in order to make a proper assessment of whether these letters had any real impact on the ASB, I attended the relevant ASB meetings and had numerous conversations and personal interviews with ASB members and members of the auditor communications task force. These interviews were conducted during the drafting of the ED, and they continued through the final adoption of SAS no. 58, *Reports on Audited Financial Statements*. *continued on page 56*

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## WHO RESPONDED?

During the exposure period, the ASB received 1,105 comment letters on all 10 expectations gap EDs released on February 14, 1987. The ED receiving the most comment letters was the proposed audit report modification—the soon-to-be SAS no. 58—which received a total of 183 letters. Approximately two-thirds of the letters were from the public accounting profession, 10% were from issuers of financial statements and 10% were from academics. The remainder came from government audit agencies and other miscellaneous groups.

## WHAT THEY SAID

In general, the respondents were supportive of the ASB's proposal to modify the existing standard report language:

- 67% of the respondents believed that a new report was needed.

- 21% said the existing report language was adequate.

- 12% didn't offer enough comment for an overall determination to be made.

However, this generally favorable reaction to introducing a new audit report didn't translate into wholehearted acceptance of the standard report wording proposed in the ED:

- Only 11% of the respondents approved of the ED report wording as proposed.

- 49% believed the ED report was basically acceptable, but that modifications would enhance the message.

- 7% indicated the ED would be acceptable only if the ASB adopted their proposed modifications.

Over half of the respondents who indicated that a new standard report wasn't needed went on to suggest modifications to, or indicated approval of, parts of the ED report wording. The most prevalent comments explicitly indicated in the letters are listed in the sidebar at right.

## INTENTIONAL OR UNINTENTIONAL?

The change that stirred the biggest controversy was the proposed addition of "intentionally or unintentionally" to the scope paragraph. Fully 55% of the respondents (100 letters) were in stark *disagreement* with this addition to the auditor's new report; only 7% supported its inclusion. The ASB itself, when deriving the ED in 1986, wavered on whether to include "intentionally or unintentionally" in the report. The

## WHAT THE COMMENT LETTERS SAID

The auditing standards board received 183 letters commenting on its exposure draft on the new standard auditor's report. Here's a summary of the proposals received:

### THE COMMENTS AGREED WITH

1. Adding "Independent" to the title.
2. Changing "examined" to "audited."
3. Adding the reference to management's role.
4. Adding the notion that an audit provides "reasonable assurance."
5. Adding "in all material respects" in the opinion paragraph.
6. Retaining the word "fairly" in the opinion paragraph.

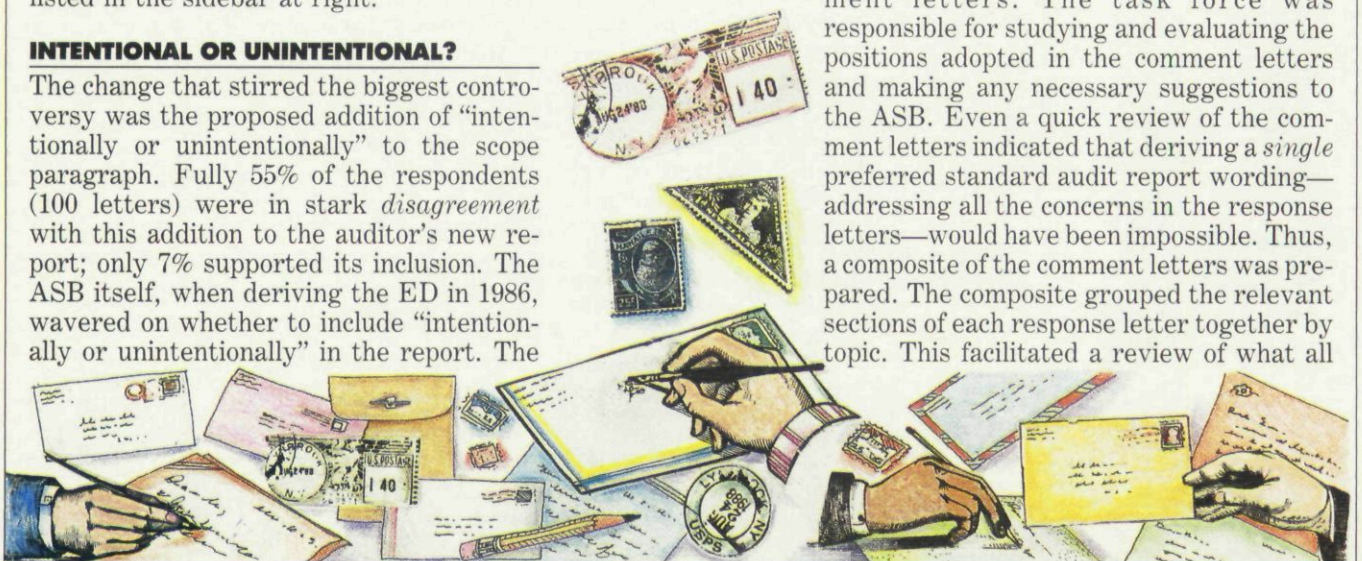
### THE COMMENTS PROPOSED

1. Eliminating "intentionally or unintentionally" in describing material misstatement.
2. Modifying "are materially misstated" to sound more positive in referring to the financial statements.
3. Restructuring the scope paragraph to enhance its readability.
4. Rewording the scope paragraph to eliminate any inadvertent indication that an audit is all-inclusive.
5. Eliminating the "appropriateness" reference when referring to accounting estimates.
6. Modifying the last sentence of the scope paragraph.

purpose was to emphasize that auditors are concerned with *all* types of material financial misstatements. In the end, the ASB did decide to include the "intentionally or unintentionally" phrase in the ED, and it explicitly asked for comments on this issue.

### IMPACT OF THE COMMENT LETTERS

ASB members and the auditor communications task force received all of the comment letters. The task force was responsible for studying and evaluating the positions adopted in the comment letters and making any necessary suggestions to the ASB. Even a quick review of the comment letters indicated that deriving a *single* preferred standard audit report wording—addressing all the concerns in the response letters—would have been impossible. Thus, a composite of the comment letters was prepared. The composite grouped the relevant sections of each response letter together by topic. This facilitated a review of what all





183 comment letters had to say on a given topic or specific wording proposal.

After reviewing the comment letters, the task force proposed seven modifications to the ED:

1. Edit the last sentence of the introductory paragraph to eliminate the redundant reference to the company.
2. Eliminate "intentionally or unintentionally" from the scope paragraph.
3. Restructure the scope paragraph to
  - Improve its readability.
  - Relate reasonable assurance to auditing standards.
  - Deal more broadly with performance of audit procedures.
  - Eliminate any indication that the audit procedures description was all-inclusive.
4. Eliminate the "appropriateness" reference.
5. Modify the scope paragraph to reflect a more positive—rather than negative—responsibility for material misstatements.
6. Edit the last sentence of the scope paragraph.
7. Reinstate "financial position, results of operations and changes in financial position" to the opinion paragraph.

With the exceptions of 1 and 7, all of these modifications were mentioned by a relatively large number of respondents. These concerns, then, were adequately identified and addressed by the task force—and eventually upheld by the ASB.

Only a few letters, however, noted that the second reference to the audited company's name in the introductory paragraph was redundant. And only four letters commented on the deletion of the "financial position" reference in the opinion paragraph.

Two of these, however, were very articulate and had a tremendous impact on the task force. They eloquently argued that the proposed deletion wasn't simply an editorial one, as the ASB originally had perceived it in 1986. It had *substantive* meaning in explaining what the audited financial statements purport to present. Even though very few commentators mentioned this point, the task force and the ASB considered these comments to be valid and incorporated them into the final SAS.

The impact of only a few letters indicates that the task force and the ASB weren't just counting votes on the issues but indeed were attempting to gain insights into the potential SAS by reading and considering

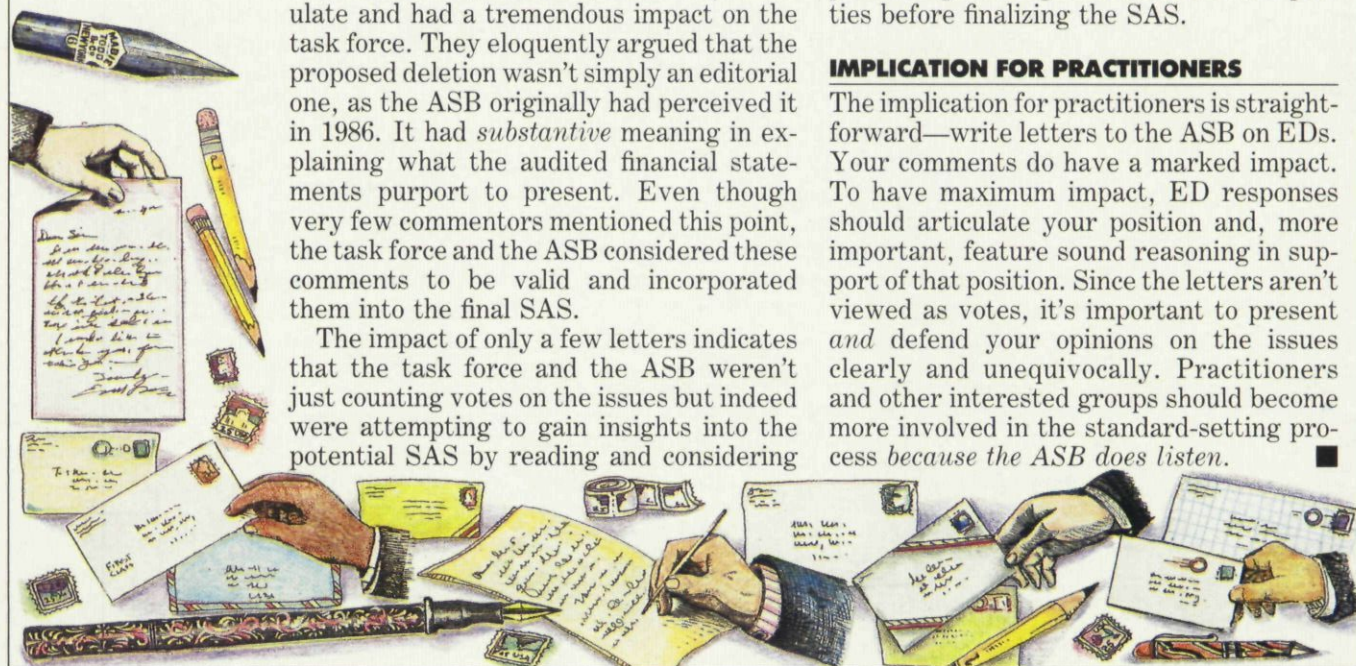
the letters carefully. Accordingly, the well-written letters generally had more influence on the standard-setting process than letters simply stating agree-disagree positions. The modifications derived by the task force, presented to the ASB and substantially upheld in the ASB's later deliberations indicate that the comment letters did have an important impact on the final wording adopted in SAS no. 58.

The response letters were discussed at every ASB meeting. The ASB was continually reminded by the task force chairman of the overall favorable reaction to the ED and of the nuances and insights gleaned from the comment letters. Subsequent ASB discussions of the audit report wording did not trivialize or show lack of concern for what was said in the comment letters. Instead, they indicated a sincere desire to resolve issues identified by the response letters. During the final deliberations leading to the issuance of SAS no. 58, when specific wording issues were addressed, board members often asked: "What did the response letters have to say?" On several occasions, the positions taken in the letters were offered in support of the modifications that were proposed by the task force or the positions being discussed by the board during the meeting.

Even though subsequent discussions and other influences caused the ASB to alter the proposed standard audit report wording further before arriving at SAS no. 58, the task force and ASB were sensitive to the positions and concerns presented in the comment letters. They weren't merely going through the motions. The comment letters were used for their intended purpose—to gain insights from interested parties before finalizing the SAS.

#### IMPLICATION FOR PRACTITIONERS

The implication for practitioners is straightforward—write letters to the ASB on EDs. Your comments do have a marked impact. To have maximum impact, ED responses should articulate your position and, more important, feature sound reasoning in support of that position. Since the letters aren't viewed as votes, it's important to present *and* defend your opinions on the issues clearly and unequivocally. Practitioners and other interested groups should become more involved in the standard-setting process *because the ASB does listen.* ■



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