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Proposed statement on auditing standards :
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(supersedes "Generally accepted auditing
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Codification of auditing standards and procedures,
AICPA, Professional standards, vol. 1, AU sec. 150);
Exposure draft (American Institute of Certified
Public Accountants), 2001, May 4

American Institute of Certified Public Accountants. Auditing Standards Board

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American Institute of Certified Public Accountants. Generally Accepted Auditing Standards Hierarchy
Task Force

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EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

GENERALLY ACCEPTED AUDITING STANDARDS

(To Supersede Statement on Auditing Standards
No. 1, *Codification of Auditing Standards and
Procedures, AU Section 150, Generally
Accepted Auditing Standards*)

May 4, 2001

Prepared by the AICPA Auditing Standards Board for comment
from persons interested in auditing and reporting issues.
Comments should be received by July 5, 2001, and addressed
to Sherry P. Boothe, Audit and Attest Standards, File 1848, AICPA,
1211 Avenue of the Americas, New York, NY 10036-8775
or via the Internet to sboothe@aicpa.org

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

May 4, 2001

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board (ASB), of a proposed Statement on Auditing Standards (SAS) titled *Generally Accepted Auditing Standards*. The proposed SAS would supersede SAS No. 1, *Codification of Auditing Standards and Procedures*, AU section 150, *Generally Accepted Auditing Standards*, to identify auditing publications auditors should follow in conducting an audit and clarify the authority of such publications. A summary of the significant provisions of the proposed SAS accompanies this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the ASB's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

In developing guidance, the ASB considers the relationship between the cost imposed and the benefits reasonably expected to be derived from audits. It also considers the differences the auditor may encounter in the audit of financial statements of small entities and, when appropriate, makes special provisions to meet those needs. Thus, the ASB would particularly appreciate comments on those matters.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after August 1, 2001, for one year. Responses should be sent to Sherry P. Boothe, Audit and Attest Standards, File 1848, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by July 5, 2001. Responses also may be sent by electronic mail to sboothe@aicpa.org.

Sincerely,

James S. Gerson
Chair
Auditing Standards Board

Charles E. Landes
Director
Audit and Attest Standards

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(2000-2001)**

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SUMMARY

WHY ISSUED

The body of auditing literature grew and evolved considerably during the twentieth century. American Institute of Certified Public Accountants (AICPA) boards and committees have issued ninety-three Statements on Auditing Standards (SASs), some of which have been superseded, and numerous auditing interpretations. The AICPA also has published Auditing Statements of Position, Audit and Accounting Guides and numerous other publications containing guidance of varying authority on how to conduct an audit of financial statements in accordance with generally accepted auditing standards (GAAS). Although the AICPA has, on occasion, realigned and clarified the authority of these publications, some uncertainty remains in the minds of auditors and others about which publications auditors must know and follow when conducting an audit. Furthermore, because of the large volume of auditing publications, some auditors may not be aware of publications that may be applicable to their audit engagements.

The Auditing Standards Board (ASB) believes the proposed SAS will significantly reduce uncertainty about which publications the auditor must comply with and which publications the auditor must consider when performing an audit in accordance with GAAS. The ASB also expects that auditors will become more aware of other applicable auditing publications that may provide useful auditing guidance, increasing the likelihood that auditors will use them. All of this should result in increased audit quality.

WHAT IT DOES

The proposed SAS—1

- Identifies the body of auditing literature.
- Clarifies the authority of auditing publications issued by the AICPA and others.
- Specifies which auditing publications the auditor must comply with and those he or she must consider when conducting an audit in accordance with GAAS.
- Identifies specific AICPA auditing publications and provides information on how to obtain them.

HOW IT AFFECTS EXISTING STANDARDS

This proposed SAS would supersede SAS No. 1, *Codification of Auditing Standards and Procedures*, AU section 150, *Generally Accepted Auditing Standards*. Certain other descriptions of the authority of AICPA auditing publications also will be revised to conform to the descriptions included in the proposed SAS. These include the head note in AU Section 100, *Statements on Auditing Standards – Introduction* (AICPA, *Professional Standards*, vol. 1, AU sec. 100), the authority statement included at the end of each newly-published SASs, the Notice to Readers included in AICPA Audit and Accounting Guides and AICPA Audit Guides, and certain other notices and authority statements included in other AICPA auditing publications.

PROPOSED STATEMENT ON AUDITING STANDARDS

GENERALLY ACCEPTED AUDITING STANDARDS

(TO SUPERSEDE STATEMENT ON AUDITING STANDARDS NO. 1, *CODIFICATION OF AUDITING STANDARDS AND PROCEDURES*, AU SECTION 150, *GENERALLY ACCEPTED AUDITING STANDARDS*)

1. An independent auditor plans, conducts, and reports the results of an audit in accordance with generally accepted auditing standards (GAAS). Auditing standards provide a measure of audit quality and the objectives to be achieved in an audit. Auditing procedures differ from auditing standards. Auditing procedures are acts that the auditor performs during the course of an audit to comply with auditing standards.

Auditing Standards

2. The general, field work, and reporting standards (the ten standards) approved and adopted by the membership of the American Institute of Certified Public Accountants (AICPA), as amended by the AICPA Auditing Standards Board (ASB), are as follows:

General Standards

1. The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the audit and the preparation of the report.

Standards of Field Work

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

Standards of Reporting

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP).
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases in which an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

3. Rule 202, *Compliance With Standards*, of the AICPA Code of Professional Conduct (AICPA, *Professional Standards*, vol. 2, ET section 202), requires the auditor to comply with standards promulgated by the ASB.¹ The ASB develops and issues standards in the form of Statements on Auditing Standards (SASs) through a due process that includes deliberation in meetings open to the public, public exposure of proposed SASs, and a formal vote. The SASs are codified within the framework of the ten standards.

4. The auditor should have sufficient knowledge of the SASs to identify those that are applicable to his or her audit engagement. The nature of the ten standards and the SASs requires the auditor to exercise professional judgment in applying them. Materiality and audit risk also underlie the application of the ten standards and the SASs, particularly those related to field work and reporting.² The auditor should be prepared to justify departures from the SASs.

Interpretive Publications

5. Interpretive Publications consist of Auditing Interpretations of the SASs, auditing guidance included in AICPA Audit and Accounting Guides, and AICPA Auditing Statements of Position. Interpretive Publications are recommendations on the application of the SASs in specific circumstances, including engagements for entities in specialized industries. An Interpretive Publication is issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed Interpretive Publication is consistent with the SASs.

6. Interpretive Publications are not auditing standards. However, the auditor should be aware of and consider Interpretive Publications applicable to his or her audit engagement. If the auditor does not apply an applicable Interpretive Publication, the auditor should be prepared to explain how he or she complied with the SAS provisions addressed by the applicable Interpretive Publication.

Other Auditing Publications

7. Other Auditing Publications, if relevant and appropriate, may help auditors understand and apply the SASs. Other Auditing Publications include AICPA auditing publications not referred to above, auditing articles in the *Journal of Accountancy* and other professional journals, AICPA *CPA Letter* auditing articles, continuing professional education programs, and other instruction materials, textbooks, guide books, audit programs and checklists, and other auditing publications from state CPA societies, other organizations, and individuals.

8. Other Auditing Publications have no authoritative status; therefore, the auditor is not required to consider them. The auditor also is not expected to be aware of the full body of Other Auditing Publications or of any particular component thereof.

9. If an auditor uses an Other Auditing Publication, he or she should be satisfied that, in his or her judgment, it is both appropriate and relevant to the circumstances of his or her engagement. In determining whether an Other Auditing Publication is appropriate, the auditor may wish to

¹ In certain engagements, the auditor also may be obligated to comply with other auditing requirements, such as Government Auditing Standards issued by the Comptroller General of the United States.

² See SAS No. 47, *Audit Risk and Materiality* (AICPA, *Professional Standards*, vol. 1, AU sec. 312).

consider the degree to which the publication is recognized as being helpful in understanding and applying the SASs and the degree to which the issuer or author is recognized as an authority in auditing matters. Other Auditing Publications published by the AICPA that have been cleared by the AICPA Audit and Attest Standards staff as listed in Appendix F of the *Codification of Statements on Auditing Standards* (AICPA, *Professional Standards*, vol. 1, AU Appendix F) are presumed to be appropriate.

Effective Date

10. This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2001.

APPENDIX F

The following Other Auditing Publications have been cleared by the AICPA Audit and Attest Standards staff.

Auditing Practice Releases (available in hard copy)

- *Service Organizations: Applying SAS No. 70* (product no. 060457)
- *The Information Technology Age: Evidential Matter in the Electronic Environment* (product no. 021068)
- *Audit Implications of EDI* (product no. 021060)
- *Confirmation of Accounts Receivable* (product no. 021064)
- *Auditing in Common Computer Environments* (product no. 021059)
- *Auditing With Computers* (product no. 021057)

AICPA Technical Practice Aids (TPAs) (available in hard copy) (product no. 005140)

Current AICPA Risk Alerts

Audit Risk Alert - 2000/2001: General Update on Economic, Auditing, Accounting and Other Professional Developments (product no. 022260)
Auto Dealerships (product no. 022254)
Construction Contractors (product no. 022256)
Common Interest Realty Associations (product no. 022255)
Lending and Depository Institutions (product no. 022257)
Employee Benefit Plans (product no. 022245)
Health Care (product no. 022258)
High Technology (product no. 022259)
Insurance (product no. 022262)
Investment Companies (product no. 022263)
Not-for-Profit Organizations (product no. 022246)
Real Estate (product no. 022264)
Retail Enterprises (product no. 022265)
Securities (product no. 022266)
State and Local Governments (product no. 022251)

PITF Practice Alerts

(Copies of these practice alerts, as well as those issued subsequently, can be obtained from the AICPA's Web site at www.aicpa.org/members/div/secps/lit/practice.htm. They can also be found in the AICPA publication *Technical Practice Aids* (product no. 005140)

- 00-4, *Quarterly Review Procedures for Public Companies*
- 00-3, *Auditing Construction Contracts*
- 00-2, *Quality of Accounting Principles - Guidance for Discussion with Audit Committees*
- 00-1, *Accounting for Certain Equity Transactions*
- 99-2, *How the Use of a Service Organization Affects Internal Control Considerations*
- 99-1, *Guidance for Independence Discussions with Audit Committees*
- 98-3, *Revenue Recognition Issues*
- 98-2, *Professional Skepticism and Related Topics*
- 98-1, *The Auditor's Use of Analytical Procedures*
- 97-3, *Changes in Auditors and Related Topics*
- 97-2, *Audits of Employee Benefit Plans*
- 97-1, *Financial Statements on the Internet*
- 96-1, *The Private Securities Litigation Reform Act of 1995*

- 95-3, *Auditing Related Parties and Related Party Transactions*
- 95-2, *Complex Derivatives* (deleted due to issuance of FASB Statements Nos. 133 and 137)
- 95-1, *Revenue Recognition Issues* (superseded by Practice Alert 98-3)
- 94-3, *Acceptance and Continuance of Audit Clients*
- 94-2, *Auditing Inventories - Physical Observations*
- 94-1, *Dealing with Audit Differences*

Other Publications

Audit Issues in Revenue Recognition (www.aicpa.org/members/div/auditstd/pubaud.htm)

Auditing Estimates and Other Soft Accounting Information, by Michael J. Ramos (product no. 010010)

Considering Fraud in a Financial Statement Audit: Practical Guidance in Applying SAS 82, by Michael J. Ramos (product no. 008883)