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Rising Expectations, A Report to Council of the American Institute of Certified Public Accountants, Boca Raton, Florida, May 1, 1972

Thomas L. Holton

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of the

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by

Thomas L. Holton, Chairman

Committee on Auditing Procedure

INTRODUCTION

At one of the recent meetings of this Council, the Chairman of the Accounting Principles Board talked about "The APB - Where The Action Is". Today my subject might have been "The Committee on Auditing Procedure - Where The Action Is", because the profession has really seen action from the Committee during the past year. We have not solved all of the problems, but we have at least made a significant dent in them. In case you haven't noticed, you may be interested in the fact that the 1970-1971 Committee issued more Statements on Auditing Procedure than any other committee since the first one was appointed over 30 years ago. As far as quantity of pronouncements is concerned, the only committee that even came close was back in 1942-1943. That committee issued six Statements on Auditing Procedure, all of them being dated in December 1942 and January 1943. And four of those six SAPs dealt with special wartime auditing problems.

Of course, the number of SAPs is not all of the story. One might also note that since the issuance of SAP 33 (the codification) in 1963, there had been 85 pages of published Statements on Auditing Procedure during the eight year period from then until 1971. This 85 pages of Statements on Auditing Procedure by eight committees compares with 108 pages issued by the 1970-1971 Committee this past year.

I do not call this to your attention because of any feeling on my part that this was the result of my contribution as Chairman of the Committee. I call it to your attention because I think the individual members of the Committee have worked most diligently at their assigned task and have produced a great deal that is beneficial to the profession and to the public. Although the members of the Committee are not satisfied with their accomplishments, and would like to have done more, I think the Committee went a long way toward meeting many of today's "rising expectations".

You have certainly seen action from the viewpoint of quantity and I hope you will agree that quality has not suffered in the process of having so much quantity. After all, it is better to have no pronouncement at all than to have some pronouncement that does not really serve the need of the profession and the public. A little later I will mention a few highlights about some of the more significant aspects of the seven Statements on Auditing Procedure the Committee issued during the past year.

As indicated by the Chairman, my assigned topic is "Rising Expectations". My expectation is to talk about rising expectations in three categories:

1. The public's rising expectations
2. The profession's rising expectations
3. The Committee's rising expectations

I will start with the expectations at the bottom of the list and progress to the top of the list of rising expectations.

THE VARIOUS RISING EXPECTATIONS

The Committee's Rising Expectations (What the Committee Expects of Individual Committee Members)

As all of you know, the Committee on Auditing Procedure is a senior committee and its members are appointed by the President of the Institute, with the approval of the Board of Directors.

Before accepting Committee appointment, prospective new members are fully advised about the heavy time commitment expected of them. For example, last year there were six regularly scheduled three day meetings of the full Committee, two special meetings of the full Committee, a multitude of subcommittee meetings in between full Committee meetings, and god only knows how much correspondence, telephone calls and other activities.

I would like to see things done quicker and accomplishments made without consuming so much manpower, but I have to admit that the problems being dealt with are difficult ones about which there are differences of opinion, so there seems to be no shortcuts beyond those we already have in effect.

At the suggestion of the Planning Subcommittee, we inaugurated some time ago a stricter policing policy on the matter of Committee members who are delinquent in making appropriate comments and suggestions regarding tentative positions of the full Committee and various subcommittees. Delinquencies are very few these days and although contribution to the work of the Committee is by no means on an equal basis, and never can be, every member of the Committee is certainly pulling on the oar and moving the ship forward.

The Profession's Rising Expectations (What the Profession Expects of the Committee)

Although we are not exactly being bombarded every day with suggestions and criticisms, there are certainly indications that the profession as a whole is expecting more of the Committee, both by way of quantity of pronouncements and quality of pronouncements. As I indicated earlier, the quantity was certainly there during the past year and I believe experience with the statements will prove that quality was not lacking. We still have a tremendous backlog and the Committee is not resting on its laurels. While the Committee is pleased with the accelerated pace to solving problems, we are not satisfied, and probably never will be.

Although technically not an activity of the Committee on Auditing Procedure, the Committee and the Board of Directors has approved publication of a new series of "auditing interpretations" in the Accounting and Auditing Problems section of The Journal of Accountancy. As you know, accounting interpretations have been published in this section for several years, first on an unofficial basis and now on an official basis. The first auditing interpretation is in the May issue of the Journal which should be on your desk this week. It deals with some problems that have been raised by practitioners regarding unaudited financial statements which are for internal use only. Another interpretation will be in the June issue of the Journal dealing with a slight modification of the recommended form of report on internal control in SAP 49.

These auditing interpretations are being published on the authority of the Institute staff only, but as a matter of policy they are published only with the approval of the Executive Vice President and the Chairman of the Committee on Auditing Procedure. As an additional precaution, I am following the practice of giving my approval as Chairman only after clearance with the Planning Subcommittee or some other group within the Committee which may have given special consideration to the problem being discussed in the auditing interpretation. These interpretations deal only with matters on which the Committee has spoken and which seem to deserve some clarification. They are not to be used to make pronouncements on questions that are under active consideration by the Committee and about which there appear to be divergent views among Committee members.

The Public's Rising Expectations (What the Public Expects of the Profession)

There are a number of indications that the public is not satisfied with the profession's performance. Over a year ago the Institute appointed two study groups to focus on two key problems, one being the Wheat Committee to study the matter of establishment of accounting principles and the other being the Trueblood Committee to study the objectives of financial statements. These were important steps in the profession's history and, assuming proper recommenendations and implementation thereof, they will go a long way toward solving what I refer to as the "Credibility Crisis" that the profession faces today.

But, let's not delude ourselves into thinking that these two steps will entirely solve our problem of credibility with the public. As worthwhile as they are, they may not even solve a majority of the problems insofar as the public is concerned.

It would serve no useful purpose to guess at some percentages of what aspects of our activities are creating what portion of the credibility crisis, but a significant portion of it is auditing, as contrasted to accounting. And while I would be the last to belittle the importance of the work of the Committee on Auditing Procedure, there are severe limitations on what the Committee can do, as a practical matter, in overcoming that portion of the credibility crisis that can be attributed to auditing. I will say more about that later, but as far as the Committee is concerned, this past year we made some important pronouncements which help to better meet the needs of the public, and particularly to better communicate with the users of our end product. The Committee is getting close to making pronouncements on other problems that are just as important, maybe even more important. I have in mind such topics as audit supervision, transactions with affiliates, reporting on forecasts, corporate audit committees and a new codification of SAPs.

A part of our public is the government and the government continues to have rising expectations of the profession. I will mention one recent development.

At the request of the Price Commission, some other AICPA representatives and I spent a day in Washington last week discussing ways in which the profession's attest function might be utilized to assist the Price Commission with a problem.

You may have noticed in the newspapers that too many of the reports filed with the Price Commission have had significant errors in them. The discussion in Washington was most beneficial, with representatives on both sides of the table being very understanding of the problems of the other. We don't have all of the answers yet, but I am confident that we will meet the rising expectations of the Price Commission.

If I may digress for one moment, I would just like to mention what a delightful experience it was to discuss the government's problems with an individual on the other side of the table, so to speak, who so very thoroughly understands the problems of the government as well as the problems of the profession which is trying to assist in solving those problems. I am referring to Commissioner John Queenan of the Price Commission. This country needs more CPAs of John's caliber in public service. Obviously, I say this to a certain degree from a selfish viewpoint insofar as the profession is concerned. More importantly, however, I believe this calibre of service is in the public interest.

STATEMENTS ISSUED BY THE 1970-1971 COMMITTEE

SAP 44 - Reports Following a Pooling of Interests

This was a very short Statement on Auditing Procedure which was issued quickly and which superseded SAP 40 in order to make some technical changes as a result of the provisions necessitated by APB Opinion No. 16.

SAP 45 - Using the Work and Reports of Other Auditors

In recent years, particularly since the Atlantic Acceptance case in Canada, there has been a need for some clarification of the duties and responsibilities of auditors when one firm is relying on another firm's audit for a portion of the consolidated financial statements. Better guidance was needed for both the relying firm and the firm being relied upon.

In addition to establishing some guidelines for the auditor to use in deciding whether he should serve as principal auditor, this SAP sets forth better procedural guidelines to help the auditor in various circumstances. The Committee was neutral, however, on the question of whether it is good or bad for a company to use more than one auditor in the examination of its consolidated financial statements.

The Committee considered a wide range of possibilities insofar as reporting is concerned. On one end of the spectrum is the position that the principal auditor must always accept the work of the other auditor as if it were his own and his report should not mention the other auditor in any way. On the other end of the spectrum is the position that the principal auditor should never accept the work of another auditor as if the work were his own and, instead, the principal auditor should report on compilation only, with no firm expressing an opinion on the fair presentation of the overall financial statements in conformity with generally accepted accounting principles.

The Committee concluded that neither of these extremes was realistic and settled on a middle ground, not really as a compromise with which no one was completely happy, but because the Committee was genuinely convinced that the middle ground was the proper position in the best interests of all concerned.

The Committee required that in cases where the principal auditor is relying on the work of another auditor, a clear indication should be given in the principal auditor's report regarding the extent of his reliance on the work and reports of other auditors. This was done in order to meet the rising expectations of the public for clear-cut reporting. SAP 45 also met the rising expectations of the profession for better guidelines for the auditor in deciding when he should act as principal auditor and for procedures he should follow in using the work and reports of other auditors.

SAP 46 - Piecemeal Opinions

The question of proper use of Piecemeal Opinions was at one time a part of the Committee's larger project entitled "Degrees of Qualifications" about which we hope to have a Statement on Auditing Procedure later this year. I suppose it was primarily the result of an article in the American Banker that we concluded to extract piecemeal opinions from the larger project and deal with it on a more prompt basis. This article focused on accountants' reports which expressed piecemeal opinions on the financial statements of bank holding companies and concluded as follows:

> "The AICPA group has come under criticism from many bankers for its laxity in allowing use of certificates showing completion of audits of some bank holding companies when, in fact, only a minuscule part of the corporation has been examined by the accountant."

The Committee was sorely tempted to write the shortest SAP in history by saying, "We note the American Banker article criticizing piecemeal opinions on bank holding companies as being unprofessional and misleading to the investing public. We acknowledge and appreciate this constructive criticism from bankers; henceforth, piecemeal opinions are outlawed."

Of course, it was not quite that simple. Piecemeal opinions are issued in a wide variety of circumstances. In fact, there was such widespread use of them in the profession that we decided the exposure draft of this SAP should be sent to the entire membership of the Institute, rather than only to the limited groups which normally receive exposure drafts.

In addition to strengthening the literature and giving better guidelines about the conditions under which piecemeal opinions are appropriate, this SAP severely limits the use of piecemeal opinions in situations where there are client-imposed restrictions on scope of work. When there are such client-imposed scope restrictions, piecemeal opinions are not permitted except in two circumstances:

1. When the financial statements and the report are for internal use only and the report states that its distribution is so restricted.
2. When the financial statements and the report are only for the use of a prospective buyer and seller of a business and the report states that its distribution is restricted to the parties involved.

SAP 46 was the first Statement on Auditing Procedure which set forth an effective date for the Statement. Even though the SAP has a July 1971 date, its effectiveness was only for financial statements for periods ending after November 30, 1971. There were two reasons for this. First, practitioners needed plenty of time to notify their clients about the new reporting requirements and to make plans for examinations of different scope in cases where clients might consider that necessary or desirable. Secondly, we were coordinating our efforts very closely with those of the SEC to require subsidiaries of bank holding companies and life insurance holding companies to be audited as of December 31, 1971. I think it is fair to say that our Committee gave the SEC a rather firm nudge to take some action on the question of whether to require these types of companies to be audited. In effect, the Committee's position was that the SEC should decide one way or the other, either accept disclaimers of opinion on these holding companies or require that the underlying banks and life insurance companies be audited. The Commission chose to require audits of the subsidiaries of bank holding companies and to accept disclaimers on life insurance holding companies.

The end result was that the rising expectations of the public were met.

SAP 47 - Subsequent Events

Auditing literature on subsequent events goes back to 1954, beginning with SAP 25. In recent years, practitioners have felt a need for clarification and strengthening of the literature in this area, particularly in view of some divergence of practice and also some questions that were raised by the BarChris decision a few years ago.

The proper accounting for subsequent events has always been covered in the auditing literature on this subject. I suppose the reason for this has been that the auditor first needs to know the types of subsequent events to which he should direct his attention, and also what he should do about them when he finds them, before he can make an intelligent decision as to how he should go about discovering those events. Be that as it may, the accounting guidelines in SAP 47 differ from those in previous auditing literature and, for that reason, the Committee obtained Accounting Principles Board approval before publication of SAP 47.

This Statement strengthened auditing requirements in several respects, but one of the more significant ones had to do with the auditor's responsibility when he discovers, before the effective date, something wrong with unaudited financial statements in a registration statement which includes his report on the audited financial statements contained therein. This question was covered in the SAP primarily because an eminently qualified law firm had advised at least one accounting firm that if an auditor discovered something wrong with unaudited financial statements in a registration statement, he should advise his client of his findings, but that the auditor would be going beyond his authority and responsibility established by law and the professional literature if he either:

1. Extended his report on the audited financial statements to state that in his opinion the unaudited financial statements were not in conformity with generally accepted accounting principles, or
2. refused to consent to the use of his report on the audited financial statements contained in the registration statement.

The members of the Committee on Auditing Procedure are not lawyers and we do not profess to give legal advice, but the Committee did establish a professional responsibility for the auditor to extend his report in such circumstances to point out the respects in which he believes the unaudited financial statements to be erroneous; also, the Committee stated that the auditor "should consider, probably with advice of legal counsel, withholding his consent to the use of his report on the audited financial statements in the registration statement." We believe this additional responsibility is in keeping with the rising expectations of the public.

This doesn't seem to be the last word on this subject, however, because SAP 47 does not deal with even later discovery of something wrong with unaudited financial statements, that is, discovery after the effective date of a registration statement and when it is no longer possible to withhold one's consent and thus prevent the registration statement from becoming effective. The literature in SAP 41 is quite clear, subject to advice of the auditor's legal counsel, about what the auditor should do about subsequently discovered facts concerning audited financial statements, but the Committee has not faced up to the quagmire into which we enter if we try to establish the accountant's professional responsibility for subsequently discovered facts regarding unaudited financial statements. In view of a recent SEC injunction suit, however, it seem clear that the SEC's expectations have risen above and beyond what the auditing literature contemplates with regard to unaudited financial statements. The Committee must face up to this problem.

SAP 48 - Letters for Underwriters

After SAP 35, Letters for Underwriters, had been in effect for about three years or so, it became evident that underwriters had rising expectations with regard to what accountants should say in comfort letters to help the underwriters show that they had met their "reasonable investigation" responsibilities under Section 11 of the Securities Act of 1933. This became evident primarily because of the following:

1. Requests by underwriters that the accountants say in their comfort letters that they had done everything necessary in the circumstances, similar to language in the scope paragraph of the report on audited financial statements.

2. Requests by underwriters that the accountants express negative assurance about almost every number in the narrative of the prospectus.

These events prompted the formation of the Advisory Task Force on Comfort Letters to assist the Committee on Auditing Procedure in revising SAP 35. This group consists of about a dozen SEC specialists chaired by the Institute's Treasurer, Harry Reiss, and they did an outstanding job over a period of about three years. During most of this period the Task Force actively consulted with the underwriting fraternity in order to thoroughly consider their views and needs before making final recommendations to the Committee.

Although there were minor disagreements on other points, the principal difference between the accounting profession and the underwriting fraternity has to do with who is responsible for determining "what is necessary in the circumstances" by way of procedures to satisfy the underwriter's responsibility under Section 11 to make a reasonable investigation of unexpertised portions of the registration statement. Accountants had never thought they were assuming this responsibility and their letters have stated that the procedures carried out would not necessarily reveal what the underwriters need to know. Nevertheless, it became evident that this message was not getting across to the underwriters, so a clarification was needed. The question was: Which way do we clarify? Should we state in comfort letters that we are doing everything necessary to satisfy the underwriter's Section 11 responsibilities? Or, alternatively, do we state that we are not assuming this responsibility? We must be clear one way or the other; otherwise, we would continue to mislead either ourselves or the underwriters, as we possibly have been doing for many years.

The conclusion was that we have enough problems satisfying our own responsibilities under Section 11 (although we have given the profession guidance in this area), and that it would be rather presumptuous on our part, if not sheer folly, for us to take on the underwriters' responsibilities under Section 11 also. In that regard, however, the Task Force has repeatedly offered to consult with the underwriting fraternity in developing its own standards and at one time it appeared that progress was being made along these lines. However, the underwriters have shown high disinterest in pursuing this project during the past six months or so.

In SAP 48, the Task Force and the Committee has met the rising expectations of the profession, but I have to admit that we have not met the rising expectations of the underwriting fraternity. What about the investing public? I think the investing public will be the beneficiary of our refusing to continue not making clear the extent of responsibility we are assuming. We have already seen evidence that underwriters, lawyers and others are paying more attention to their own responsibilities. This has to be good for the investing public.

SAP 49 - Reports on Internal Control

The Committee has under active consideration a project to completely update and clarify the auditing literature on the subject of internal control. Hopefully, this project will be completed and a pronouncement issued later this year.

Last year the Committee noted a trend toward a proliferation of what I refer to as extremely short-form reports on internal control. In order to head off a problem before it got to be a serious one, the Committee concluded to concentrate its immediate efforts on the reporting aspects of the internal control project and issued a Statement on Auditing Procedure on that part of the subject promptly. The major questions were these:

1. In view of the tremendously wide variety of circumstances and differences of opinion as to what constitutes an internal control system which is acceptable, satisfactory, or adequate, does it really serve a useful purpose for the auditor to simply state that in his opinion the overall system is acceptable, satisfactory or adequate?
2. In view of the technical nature of the subject, should reports on internal control have some limited audience based on presumed understanding of the subject matter?
3. Should a report on internal control point out specific aspects of a system which the auditor has judged to constitute material weaknesses?

Although almost all of the members of the Committee seriously question the usefulness of reports on internal control to the general public, as defined in SAP 49, the Committee concluded that there had not been enough experience with these reports at this time to justify a definite conclusion that they are in fact misleading to the general public. Accordingly, the Committee decided not to proscribe such reports being issued for use by the general public. Instead, this decision was left to management and/or regulatory agencies having jurisdiction in specific cases.

The Committee also concluded that overall opinions on a system of internal control, such as adequate, acceptable or satisfactory, are not appropriate because such overall opinions are too susceptible to misleading the reader; accordingly, the conclusions of the auditor should be stated in terms of the auditor's judgement with regard to material weaknesses regarding specific aspects of the system. The various potential users of the report can then consider the reported weaknesses in the light of their own specific needs and reasons for being concerned about weaknesses in internal control.

All too often the actions of the profession have been the result of responding to crisis. In this case, no crisis either existed or appeared to be threatening. The easy thing to do would have been to wait until a crisis did develop and then go about trying to cure it. The Committee believes the method of reporting set forth in SAP 49 will avoid a crisis, which we believe occurs only when someone has been mislead or is at least in a position to contend that he has been mislead. There is little excuse for the user of a report on internal control to be misled by the method of reporting established in SAP 49. Thus, we think we have met the rising expectations of both the profession in giving guidance in this area and also the public by establishing reporting guidelines which will not mislead readers of reports.

<u>SAP 50 -- Reporting on the Statement of Changes in Financial Position</u>

The Committee reacted rather promptly to the issuance of APB Opinion No. 19 which required a funds statement as a basic financial statement when a company presents both financial position and results of operations. Even though the action was prompt, it was not as prompt as I would like to have seen.

The question of how to report when a funds statement is presented created no big problem, but we did have considerable difference of opinion as to what the auditor should do when a client refuses to present a statement of changes in financial position. This disagreement resulted in a total of seven dissents and qualified assents, so the statement was passed by exactly the bare two-thirds majority vote which is required for issuance of a statement.

In this case, the Committee met the rising expectations of the profession by giving guidance rather promptly as to how the auditor should report in a variety of circumstances, including when the funds statement is presented and when it is not presented, when the financial statements are audited and when they are not audited, and when unaudited financial statements are restricted to internal use only and when they are not so restricted. By giving such guidance to the profession on a prompt basis, the users of financial statements are also better served.

Traditionally, Statements on Auditing Procedure have had almost no dissents and qualified assents. I suppose it might be said that this is not surprising because most of the pronouncements have been rather bland and non-controversial. As I said earlier, however, SAP 50 went the limit - it just barely passed by the required two-thirds majority. This makes me question again whether, on balance, publishing dissents and qualified assents really serves a useful purpose, in spite of the fact that I was one of those qualifying his assent on this particular SAP. I qualified my assent only because I felt that my feelings had to be expressed in the light of some strong views expressed in the entirely opposite direction in other qualified assents. In other words, I am afraid dissents and qualified assents serve to breed other dissents and qualified assents. In this regard, I note that the Wheat Committee also recommends that there be no published dissents along with any accounting standards statements promulgated by the suggested new board. I think they are wise in this recommendation.

TWO SIGNIFICANT DEVELOPMENTS

Form 8-K - Changes in Auditors

It was almost a year ago today that the SEC exposed for comment a proposed amendment to its Form 8-K to require that publicly held companies registered with the SEC report a change in principal auditor and the reasons for the change. The proposal also would have required the former auditor to write a letter to the SEC indicating whether he agreed with the former client's stated reasons for changing auditors.

In view of the fact that most changes in auditors are for good and valid reasons, even though they may be subjective reasons, the proposal created considerable concern among registered companies as well as CPAs. Recognizing this, the Board of Directors of the Institute appointed a special ad hoc committee to consult with the SEC on its proposal. The Committee on Auditing Procedure had previously established a subcommittee on auditor objectivity and this subcommittee was well prepared to make a significant contribution to the SEC's consideration of this matter. Because of the previous related deliberations of the Committee on Auditing Procedure, I was appointed Chairman of the ad hoc group and the Chairman of the subcommittee on Auditor Objectivity was appointed a member of the group, along with the Chairman of the Ethics Division, the Chairman of the Committee on Cooperation with the SEC and the Executive Vice President, Len Savoie.

Our discussions with the SEC representatives revealed that the SEC was not really interested in <u>all</u> reasons for changes in auditors, but they were interested in auditor changes for the <u>wrong</u> reasons, these wrong reasons generally being characterized as those which resulted from the former auditor doing the job he is hired to do and standing up to client pressure instead of "going along" with some accounting or auditing matter with which he does not agree. The ad hoc committee found the objectives of the SEC to be very commendable and proceeded to suggest reporting requirements designed to attain the stated objectives. The end result was that the finally adopted Form 8-K amendments required publicly held companies to report a change in auditors and also to report any disagreements with the former auditor during the preceding 18 months which disagreements involved accounting or auditing matters that were so serious that they would have affected the former auditor's report if they had not been resolved to his satisfaction. The finally adopted Form 8-K amendments also require the former auditor to write a separate letter to the SEC stating whether he agrees with the statements made by the resigtrant in its letter to the SEC.

The new reporting requirements on Form 8-K seem to have been therapeutic, according to Commissioner Needham in a speech to the Financial Executives Institute in New York City last month. I agree with Commissioner Needham's comments. Although hard pressures from clients to have the auditor "go along" with unacceptable practices are somewhat rare in day-to-day practice, I think they have been even less frequent since the adoption of the changes in Form 8-K. It is my opinion, and also the opinion of the auditor objectivity subcommittee of the Committee on Auditing Procedure, that the SEC should be commended for adopting the new Form 8-K reporting requirements. They serve to strengthen the hand of the auditor and to create a better atmosphere in which to resolve day-to-day problems where there might be differences of opinion between the client and the auditor. This better atmosphere is good for all affected parties, the present auditor, the client, a proposed new auditor, if any, and, most important of all, the public.

Unaudited Financial Statements

In 1967, the Committee on Auditing Procedure issued Statement No. 38 entitled "Unaudited Financial Statements." In general, this Statement provides that although the accountant cannot ignore what he knows, he has no responsibility to carry out any procedures to determine whether unaudited financial statements are right or wrong. This is somewhat at variance from the professional requirements regarding unaudited financial statements in Canada because the Canadian Institute has adopted some minimum procedures in order for the auditor to permit his name to be associated with unaudited financial statements.

The position of the Committee in SAP 38 also appears to be different from what the New York court has held in the case of 1136 Tenants' Corporation.

I certainly don't profess to have all of the answers to unaudited financial statement problems. In fact, I don't even profess to have all of the questions, so I have appointed a new subcommittee to study the implications of the 1136 Tenants' Corporation case in the light of present auditing literature. The first charge of the subcommittee is to develop a comprehensive list of all of the questions that should be considered by the Committee and then to develop the possible alternative solutions.

One extreme, of course, would be that CPAs simply should not be associated with unaudited financial statements in any way. Very few firms could afford to take such a position and even if they could, it seems clear to me that the public would not be very well served by such a refusal by the profession to serve some very legitimate needs.

Another possible solution would be to issue a pronouncement entitled something like "How Not to Make an Audit". Heretofore, the Committee has steadfastly refused to open that can of worms but maybe it is better to let all of the worms out at once rather than have them sneak out one at a time.

And, of course, as I mentioned earlier, we have to face the question of whether to apply the philosophy of SAP 41 on subsequently discovered facts to unaudited financial statement situations. The Committee was very careful not to deal with unaudited financial statments when it issued SAP 41.

CONCLUDING REMARKS

Earlier I mentioned the credibility crisis and how various Institute actions are helping to overcome that crisis, including pronouncements by the Committee on Auditing Procedure designed to meet the rising expectations of the public.

Such pronouncements help, but they certainly won't entirely solve the problem. A large part of the solution comes through individual actions by each of the practicing units in the profession. But here again, firm decisions and actions can only go just so far. In the final analysis, a large portion of the credibility crisis will be solved only by good sound, hard nosed auditing by individual auditors, those of us on the firing line making the day-to-day decision. Each of us should be deciding the tough day-to-day questions arising in our practices on a basis that we would all be proud of if all of the facts were published the next day in the Wall St. Journal. After all, "public" is our middle name and we had better not forget the public in making our day-to-day decisions in auditing.

Also, we should not forget the importance of the basic function for which we exist as a separate and distinct profession. In this regard, I cannot improve on the first paragraph of an editorial in the April 22, 1972 issue of "Business Week":

> "The basic function of the certified public accountant is to put the stamp of credibility on the financial statements that corporations make to the public. Without the believability that his attestation confers, the whole system of public ownership of corporate securities would collapse."