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June 28, 2002

Ms. Sherry Boothe  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

### ***Omnibus—2002 Exposure Draft***

Dear Ms. Boothe:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the AICPA Auditing Standards Board's (Board's) Exposure Draft (ED) of a proposed Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagements (SSAE), entitled *Omnibus—2002*.

The FMSB, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are encouraged to comment separately.

Except for our concern regarding the expansion of SAS No. 52 to allow other sources of generally accepted accounting principles (GAAP) to establish requirements for providing required supplementary information (RSI), the FMSB generally supports the Board's proposed revisions to other SASs and SSAEs. The seven comments and recommendations expressed in this response do not necessarily represent positions of individual FMSB members or the organizations that they represent.

#### Expansion of GAAP Sources in SAS No. 52

Paragraph 15, on Pages 20-21 of the ED, would expand the current guidance in SAS No. 52 to allow AICPA Industry Audit and Accounting Guides and other sources within the GAAP hierarchy to establish requirements for providing RSI. The FMSB opposes any expansion of RSI beyond that established by the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), and the Federal Accounting Standards Advisory Board (FASAB), as currently provided in SAS No. 52. FASB, GASB, and FASAB were established and specifically authorized to set accounting



and financial reporting standards, they exercise extensive due process procedures, and they have received AICPA Rule 203 recognition. The FMSB is strongly opposed to expanding and diluting the existing guidance, beyond the three standard-setting Boards, to allow other sources of GAAP to establish RSI. Therefore, the FMSB believes that the Board should delete the proposed amendment to SAS No. 52 in Paragraphs 15 and 16, on Pages 20-21 of the ED, in the final Statement. We believe that the Board should delete similar conforming revisions in other amendments of the ED (e.g., the amendment to SAS 29 in Paragraph 17 on Pages 21-22) in the final Statement.

#### Other Comments and Recommendations

1. Footnote 13, on Page 13, regarding SAS No. 47, states, “The term *likely misstatements* includes any known uncorrected misstatements.” After considering the comprehensive discussion of misstatements in the proposed amendment to SAS No. 47 in Paragraph 5, the FMSB believes that the guidance in Footnote 13 may be unnecessary or, in fact, misleading. For this reason, the FMSB suggests that the Board either delete Footnote 13 in the final Statement or revise it to read “Known uncorrected misstatements are one component of total likely misstatements.”
2. Paragraph 6, on Page 15, also regarding SAS No. 47, indicates “This amendment is effective upon issuance.” Because this amendment would clarify the auditor’s responsibility for evaluating audit adjustments, the FMSB believes its effect on the auditor and his/her fieldwork is more than merely a conforming change or a technical correction. For this reason, the FMSB suggests that the Board revise Paragraph 6 to provide a *specific* prospective effective date, such as “This amendment is effective for audits of financial statements for periods beginning on or after December 15, 2002. Earlier application is encouraged.”
3. Paragraph 9, on Pages 17-18, regarding SAS No. 85, twice refers to “...programs and controls to prevent and detect fraud.” For consistency with similar references in the AICPA’s recently issued fraud ED (e.g., Paragraph 18, Page 23), the FMSB suggests that the Board revise these two references slightly to read “...programs and controls to prevent, deter, and detect fraud.”
4. Paragraph 10, on Page 18, regarding the effective date for the amendment to SAS No. 85, states “This amendment is effective

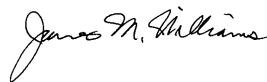
for audits of financial statements for periods beginning on or after December 15, 2002. Earlier application is permissible.” This effective date is the same as the effective date contained in the AICPA’s fraud ED, a strategy with which the FMSB concurs. However, in its response to the fraud ED, the FMSB stated that the fraud ED was an important initiative of both the Board and its Fraud Task Force and, for that reason, the FMSB felt that the Board should *encourage* early implementation of that final Statement. For consistency between the two documents, the FMSB suggests that the Board revise the second sentence of Paragraph 10 in this ED to read “Earlier application is encouraged.”

5. Paragraph 13, on Page 20, suggests, as amendatory guidance in SAS No. 52, “When required supplementary information is presented outside the basic financial statements in an auditor-submitted document, the auditor *may* a) express an opinion on the information if engaged to examine the information, b) *report* on such information using the guidance in AU section 551.12. and .14...” (emphasis added) Similarly, Paragraph 17, on Page 21, suggests, as amendatory guidance in SAS No. 29, “When supplementary information required by GAAP is presented outside the basic financial statements in an auditor-submitted document, the auditor *may* a) express an opinion on the information if the auditor has been engaged to examine the information, b) *report* on the information using the guidance in paragraphs .12 and .14...” (emphasis added) The FMSB has two concerns with the proposed language in Paragraphs 13 and 17. First, because the auditor appears to have no other option beyond the three options listed, the FMSB suggests that the Board use the word *should* (instead of *may*) in these two sentences. Second, because AU sections 551.12 and 551.14 are both examples of “in relation to” opinions, the FMSB is concerned that the use of two different terms (*express an opinion* and *report*) may confuse the auditor. For this reason, the FMSB suggests that the Board use the term *express an opinion* in both part a) and part b) of these two sentences.
6. Paragraph 21, on Page 23, would revise the definition of subsequent events in SAS No. 1 to read “...events or transactions sometimes occur subsequent to the balance-sheet date, but prior to the issuance of the financial statements, that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements. These

occurrences hereinafter are referred to as *subsequent events*.” The FMSB is concerned that this definition appears to be inconsistent with the definitions of subsequent events in both Paragraph 7 and Paragraph 19 of the ED. For example, Paragraph 7, on Page 15, regarding subsequent events in a service auditor’s engagement, states “Changes in a service organization’s controls that could affect user organizations’ information systems may occur subsequent to the period covered by the service auditor’s report but before the date of the service auditor’s report. These occurrences are referred to as *subsequent events*.” Does the auditor’s responsibility for subsequent events go to the date of the auditor’s report or extend to the issuance date of the financial statements? For clarity, the FMSB suggests that the Board carefully review the proposed guidance in Paragraphs 7, 19, and 21 to ensure that the definitions of subsequent events are consistent throughout the final Statement.

Again, the FMSB appreciates the opportunity to provide comments on this omnibus ED. Should you have any questions, or desire further details on the FMSB’s position, please contact me at (216) 228-4453 or [james.williams17@ey.com](mailto:james.williams17@ey.com), or Jon Wise, the FMSB facilitator for this project, at (517) 334-8060, Ext. 500, or [WiseJ1@michigan.gov](mailto:WiseJ1@michigan.gov).

Sincerely,



James M. Williams, CPA, CGFM, Chair  
AGA Financial Mgt. Standards Board

c: Richard V. Norment, CGFM  
AGA National President