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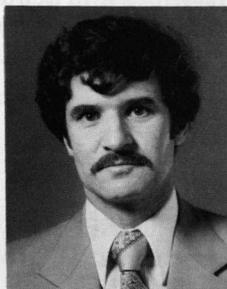
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Conclusions and Recommendations of the Commission on Auditors' Responsibilities: The Reactions of Auditors and Accounting Professors

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In 1974 the American Institute of Certified Public Accountants (AICPA) established the Commission on Auditors' Responsibilities with the following charge:

To develop conclusions and recommendations regarding the appropriate responsibilities of independent auditors. It should consider whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish. If such a gap does exist, it needs to be explored to determine how the disparity can be resolved.¹

The Commission released its final Report, Conclusions, and Recommendations in 1978.² In the final report, the commission concluded that a gap does exist between user expectations and auditor accomplishments. Principal responsibility, however, does not appear to lie with the users of financial statements.³

Several recommendations of the Commission's report have resulted in the AICPA appointing committees to study specific issues. Additionally, as a consequence of the final report, the AICPA conducted public hearings in late 1979 concerning revisions to the auditor's standard report. As a result of these hearings, the Auditing Standards Board of the AICPA issued, in September, 1980, an exposure draft of a proposed Statement on Auditing Standards which recommended changes to the audit report. In March, 1981, the Auditing Standards Board failed to approve the proposed statement and dropped the issue of a new auditor's report.

The importance of the Commission's report, conclusions, and recommendations cannot be minimized. The report is likely to have important consequences upon the auditor's actions. It is important that the views of members of the auditing profession be heard. Public hearings provide one forum for expressing these views. Additional evidence of the views of those closely involved with auditing can prove valuable input for the AICPA's Auditing Standards Board. This article studies the attitudes of practicing auditors and auditing professors with respect to many of the Commission's conclusions and recommendations.

The Study

Random samples of 350 practicing CPAs and 350 auditing professors were obtained from the AICPA Membership Directory⁴ and the Accounting Faculty Directory 1978-1979.⁵ The selected CPAs with public accounting firms and professors indicating "Auditing" as their major area of interest were sent copies of the study questionnaire. Respondents were requested to indicate the extent to which they agree or disagree with the following conclusions of the Commission:

Conclusion 1: The phrase "present fairly" should be deleted from the auditor's report.

Conclusion 2: The auditor should analyze the underlying facts and circumstances to determine whether alternative accounting principles not employed by a client would result in a presentation more closely in accord with the substance of a transaction or event.

Conclusion 3: The audit requirement to express a "subject to" qualification when financial statements are affected by material uncertainties should be eliminated.

Conclusion 4: The auditor's standard report should make reference to the following major elements of the audit function:

- a. review of internal control
- b. material uncorrected weaknesses in internal control
- c. financial information (exclusive of that in the financial statements) appearing in the annual report
- d. results of the review of interim financial information
- e. reference to the consistent application of GAAP should be eliminated.

Conclusion 5: Management of the client should acknowledge responsibility for representations in the financial statements by presenting their own report along with the statements.

Conclusion 6: The auditor should expand his study and evaluation of internal administrative controls and internal accounting controls.

Conclusion 7: If management were to present the report referenced in Conclusion 5, the auditor should state whether he agrees with management's description of internal control.

Conclusion 8: There should be a statutory limitation to the monetary damages that could be recovered from auditors.

Conclusion 9: In complicated cases involving auditors, the use of court-appointed "masters" (designated experts) should be required.

Conclusion 10: A "safe harbor" rule should apply only when auditors are asked to assume new responsibilities or significantly extend old ones.

Conclusion 11: The same auditing standards apply to all audits regardless of an entity's size or number of shareholders.

Conclusion 12: The auditor has a duty to search for fraud and the audit should be designed to provide reasonable assurance that the financial statements are not affected by material fraud.

Conclusion 13: The auditor cannot reasonably be expected to assume responsibility for detection or disclosure of a client's violations of law in general.

Results of Study

For each conclusion of the Commission cited above, one or more statements were included in the questionnaire. Using a five point scale, the respondent was asked to indicate the extent of his/her agreement or disagreement with each statement.

A total of 80 practitioners and 165 auditing professors responded, for an overall response rate of 35%. Table 1 indicates the percentage of practitioners and academicians agreeing or disagreeing with each statement.

TABLE 1
TABULATION OF RESPONSES

		Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Mean Value	
		(1)	(2)	(3)	(4)	(5)		
1. The phrase "present fairly" should be eliminated from the standard auditor's report.	CPA Auditors	44%	32%	9%	14%	1%	1.96	
	Professors	37%	31%	7%	17%	8%	2.22	
	Combined	39%	32%	7%	16%	6%	2.18	
	Responses							
2. The auditor should be required to indicate the "preferability" of an accounting principle used by his client when two or more alternatives are available.	CPA Auditors	35%	34%	11%	17%	3%	2.19	
	Professors	25%	29%	13%	24%	9%	2.65	
	Combined	28%	31%	12%	22%	7%	2.51	
	Responses							
3. The "subject to" qualification arising from material uncertainties should be replaced by footnote disclosures of uncertainties in a manner similar to the disclosure of accounting principles.	CPA Auditors	30%	41%	4%	17%	8%	2.31	
	Professors	29%	27%	6%	20%	18%	2.71	
	Combined	29%	31%	6%	19%	15%	2.59	
	Responses							
4. The auditor's standard report should include reference to:								
	a) A review of internal control	CPA Auditors	20%	46%	4%	24%	6%	2.50
		Professors	16%	24%	10%	35%	15%	3.08
		Combined	17%	31%	8%	31%	13%	2.91
		Responses						
	b) Material uncorrected weaknesses of internal control	CPA Auditors	19%	46%	10%	19%	6%	2.48
		Professors	16%	27%	10%	29%	18%	3.04
		Combined	17%	33%	10%	26%	14%	2.87
		Responses						

		<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Agree nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Mean Value</u>
c) Financial Information (exclusive of that in the financial statement) appearing in the annual report to stockholders	CPA Auditors	24%	40%	19%	16%	1%	2.31
	Professors	18%	30%	17%	25%	10%	2.80
	Combined	20%	33%	18%	22%	7%	2.65
	Responses						
d) The results of any review of interim financial information	CPA Auditors	25%	43%	20%	11%	1%	2.32
	Professors	16%	31%	24%	23%	6%	2.72
	Combined	19%	34%	23%	19%	5%	2.57
	Responses						
e) The consistent application of generally accepted accounting principles	CPA Auditors	1%	3%	3%	36%	57%	4.46
	Professors	4%	4%	4%	37%	51%	4.25
	Combined	3%	4%	3%	37%	53%	4.32
	Responses						
5. Management of the client should acknowledge responsibility for representation in the financial statement by presenting their own report along with these statements.	CPA Auditors	13%	19%	16%	37%	15%	3.24
	Professors	6%	8%	9%	40%	37%	3.95
	Combined	8%	11%	11%	39%	31%	3.73
	Responses						
6. The auditor should expand his study and evaluation of:							
	a) Administrative controls						
	CPA Auditors	6%	29%	28%	32%	5%	3.01
	Professors	15%	27%	24%	28%	6%	2.84
	Combined	13%	27%	25%	29%	6%	2.89
	Responses						
b) Accounting controls	CPA Auditors	4%	20%	26%	43%	7%	3.30
	Professors	6%	15%	27%	35%	17%	3.41
	Combined	6%	17%	26%	37%	14%	3.37
	Responses						
7. If management presents its own report (Statement 5) which includes a description of internal control, the auditor should state whether he agrees with management's description of internal control.	CPA Auditors	6%	20%	13%	52%	9%	3.38
	Professors	4%	10%	12%	51%	23%	3.78
	Combined	5%	13%	12%	52%	18%	3.66
	Responses						
8. There should be a statutory limitation to the monetary damages that could be recovered from auditors.	CPA Auditors	6%	16%	15%	30%	33%	3.66
	Professors	15%	18%	16%	30%	21%	3.23
	Combined	13%	17%	15%	30%	25%	3.36
	Responses						
9. In complicated cases involving auditors, the use of court-appointed "Masters" (designated experts) should be required.	CPA Auditors	1%	8%	6%	51%	34%	4.08
	Professors	4%	7%	16%	43%	30%	3.88
	Combined	4%	7%	13%	45%	31%	3.94
	Responses						
10. A "safe harbor" rule should apply:							
	a) To all audited information						
	CPA Auditors	2%	10%	10%	48%	30%	3.92
	Professors	16%	22%	11%	28%	23%	3.21
	Combined	12%	18%	11%	34%	25%	3.43
	Responses						
b) Only to new types of financial information (such as forecasts and current values)	CPA Auditors	18%	30%	17%	17%	18%	2.88
	Professors	14%	16%	12%	35%	23%	3.35
	Combined	16%	20%	14%	29%	21%	3.20
	Responses						
11. The same auditing standards should apply to all clients regardless of entity size.	CPA Auditors	5%	31%	4%	38%	22%	3.41
	Professors	7%	23%	3%	33%	34%	3.65
	Combined	7%	25%	3%	34%	31%	3.58
	Responses						
12. The auditor should be expected to search for:							
	a) All frauds						
	CPA Auditors	64%	30%	4%	2%	0%	1.41
	Professors	63%	26%	6%	3%	1%	1.55
	Combined	63%	27%	6%	3%	1%	1.52
	Responses						
b) Material fraud only	CPA Auditors	16%	24%	8%	41%	11%	3.08
	Professors	7%	8%	4%	58%	23%	3.83
	Combined	10%	13%	5%	53%	19%	3.60
	Responses						
13. The auditor should be expected to search for:							
	a) All illegal or questionable acts.						
	CPA Auditors	55%	30%	11%	4%	0%	1.64
	Professors	57%	27%	8%	6%	2%	1.70
	Combined	56%	28%	9%	5%	2%	1.68
	Responses						
b) Material illegal or questionable acts only.	CPA Auditors	17%	29%	5%	39%	10%	2.95
	Professors	7%	13%	14%	50%	16%	3.55
	Combined	10%	18%	11%	47%	14%	3.37
	Responses						

Interpretation of Responses

Based upon the data in Table 1, the following conclusions can be stated:

1. In general, both practitioners and professors disagreed with the Commission's specific revisions to the auditor's report (Questions 1-5). The only agreement between respondents and the Commission's recommendations concerned the desirability of having management prepare its own report to accompany the auditor's report and the financial statements.

2. Respondents agreed to a moderate extent with the conclusions of the Commission on the matter of internal control (Questions 6-7).

3. In the legal liability area (Questions 8-10), respondents agreed with the Commission's conclusions concerning limitation of damages and the required use of court-appointed "Masters" in complicated cases. However, while the Commission favored the application of a "safe harbor" rule only to new types of information, the respondents felt that this rule should instead apply to all types of audited information.

4. Respondents also agreed moderately with the conclusion that the same auditing standards (Question 11) should apply to all audits.

5. The position of the respondents regarding the auditor's liability for fraud detection (Questions 12-13) was consistent with the positions taken in the current SAS's and by the Cohen Commission. In essence, the respondents agreed that the auditor should be expected to search only for material

fraud and material illegal or questionable acts.

Summary

This study measured the attitudes of practicing external auditors and auditing professors with respect to selected conclusions of the Commission on Auditor's Responsibilities. The primary objective of this study was to use these attitudes for assessing the likelihood of acceptance by the profession of auditing standards resulting from the Commission's conclusions.

Evidence is presented in this study that potential problems may exist in the development of auditing standards which follow the Commission's conclusions. This is especially true regarding suggested revisions to the auditor's standard report. The recent decision of the Auditing Standards Board to drop the proposed changes to the auditor's report bears out what the results of this survey indicate.

FOOTNOTES

¹*The Commission on Auditors' Responsibilities, Report, Conclusions, and Recommendations* (New York: American Institute of Certified Public Accountants, 1978), p. xi.

²*The Commission on Auditors' Responsibilities, Report, Conclusion, and Recommendations* (New York: American Institute of Certified Public Accountants, 1978).

³*Ibid.*, p. xii.

⁴*AICPA List of Members 1978* (New York: American Institute of Certified Public Accountants, 1978).

⁵James R. Hasselback (compiler), *Accounting Faculty Directory 1978-79* (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1978).

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