

AICPA ISSUES TWO NEW SAS'S

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The American Institute of CPAs (AICPA) issued **Statement on Auditing Standards (SAS) No. 89 "Audit Adjustments"** and **No. 90 "Audit Committee Communications"** in December 1999. Both new standards are effective for years beginning after December 15, 1999, with earlier application permitted.

The purpose of this article is to briefly examine these two new standards and the effect they will have on CPAs performing association audits. It is quite common for the auditor to discover minor misstatements during the course of the audit that are not adjusted as part of the audit. The auditor's job is not to perform bookkeeping, but to perform an examination of the financial statements to ascertain that they are fairly presented *in all material respects*. This means that certain potential items may be identified but not adjusted. These items, known as "financial statement misstatements," are the subject of SAS No. 89.

SAS No. 89 - Audit Adjustments, is an amendment to SAS's No. 1, 85, and 61.

SAS No. 1, Codification of Auditing Standards and Procedures, was amended to add the following paragraph:

"Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole."

SAS No. 85, Management Representations, was amended to require that the management representation letter include an acknowledgement by management that it has considered the financial statements misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented, and has concluded that any uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as whole. It also requires that a summary of the uncorrected misstatements be included in or attached to the representation letter. Finally, the following item is added to the illustrative management letter:

"We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as whole."

SAS No. 61, Communication With Audit Committees, is amended to insert the following paragraph to inform the audit committee about uncorrected misstatements:

The auditor should inform the audit committee about uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SAS No. 90, Audit Committee Communications, amends SAS No. 61 and No. 71. While SAS No. 90 specifically applies only to audits of public companies under the jurisdiction of the Securities and Exchange Commission (SEC), the principles



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established here are likely to spill over to nonpublic entities just as other standards have done in the past.

SAS No. 61, Communication With Audit Committees, was amended to require auditors to discuss with audit committees the auditor's judgments about the quality, not just the acceptability, of the entity's accounting principles and underlying estimates in its financial statements. Estimates particularly affect the auditors analysis of (estimated) uncollectible accounts, (estimated) depreciation, and estimates related to the recording of reserves. If an auditor elects to communicate with

the audit committee in writing, that report should indicate that it is intended solely for the information and use of the audit committee or board of directors, and if appropriate, management, but is not intended to be and should not be used by anyone other than these specified parties.

SAS No. 71, Interim Financial Information, was amended to require that any matters identified by the CPA during the course of procedures applicable to interim financial statements also be communicated to the audit committee.

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