

July 28, 2009

Mr. Michael Glynn
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

By e-mail: mglynn@aicpa.org

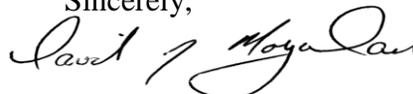
**Re: Proposed Statements on Standards for Accounting and Review Services:
Proposed SSARS, *Framework and Objectives for Performing and
Reporting on Compilation and Review Engagements*;
Proposed SSARS, *Compilation of Financial Statements*;
Proposed SSARS, *Review of Financial Statements***

Dear Mr. Glynn:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Accounting and Review Services Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Jay H. Goldberg, Chair of the Accounting and Review Services Committee at (212) 842-7618, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



David J. Moynihan
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED STATEMENTS ON STANDARDS
FOR ACCOUNTING AND REVIEW SERVICES:**

**PROPOSED SSARS, *FRAMEWORK AND OBJECTIVES FOR PERFORMING
AND REPORTING ON COMPILATION AND REVIEW ENGAGEMENTS;***

PROPOSED SSARS, *COMPILATION OF FINANCIAL STATEMENTS;*

PROPOSED SSARS, *REVIEW OF FINANCIAL STATEMENTS*

July 28, 2009

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Jay H. Goldberg

Joseph A. Maffia

Ira M. Talbi

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New York State Society of Certified Public Accountants
Accounting and Review Services Committee

Comments on

Proposed Statements on Standards for Accounting and Review Services:

Proposed SSARS, *Framework and Objectives for Performing and Reporting on Compilation and Review Engagements*;
Proposed SSARS, *Compilation of Financial Statements*;
Proposed SSARS, *Review of Financial Statements*

The New York State Society of Certified Public Accountants welcomes the opportunity to comment on the AICPA Accounting and Review Services Committee's (ARSC) Proposed Statements on Statements on Standards for Accounting and Review Services: Proposed SSARS, *Framework and Objectives for Performing and Reporting on Compilation and Review Engagements*; Proposed SSARS, *Compilation of Financial Statements*; Proposed SSARS, *Review of Financial Statements*.

Framework and Objectives for Performing and Reporting on Compilation and Review Engagements-

General Comments

We applaud the ARSC for their efforts in proposing these significant changes to the Compilation and Review standards. While the breadth of change may seem overwhelming at first glance to the smaller practitioner, we believe that overall most of the proposed changes are in the best interest of the public and the practitioner. However, we believe that ARSC may have unnecessarily raised the bar with respect to the performance of review engagements by introducing a conceptual framework and terms that provide the practitioner with no practical way (*i.e.*, linking of framework to procedures) to comply with the new framework. We are concerned that the combination of the vastness of change and the increased level of performance will adversely affect the majority of the compilation and review engagements largest stakeholders—the small practitioner.

Specific Comments

Conceptual Framework

The exposure draft introduces a risk based conceptual framework for review engagements. It attempts to provide a means to quantify risk when the accountant has in the past used his or her judgment. The exposure draft borrows some—but not all—of the terms found in the auditing standards under AU 312, *Audit Risk and Materiality in Conducting an Audit*.

The exposure draft states that review risk is defined as:

The risk that an accountant may unknowingly fail to modify his or her review report on financial statements that are materially misstated.

It further states that under a review engagement:

The accountant should accumulate review evidence sufficient to restrict review risk to a moderate level.

AU 312 establishes the relationship between Audit Risk, the risk of misstatement and materiality. It also introduces the audit risk model, $AR = ROMM * DR$. This audit risk model applies to all assurance engagements as the assurance risk will always be a function of the relationship between the amount of work performed and therefore the amount of evidence obtained by the accountant with the risk of a material misstatement.

The exposure draft introduces only pieces of this assurance model. For example, it introduces review risk and evidence. Review evidence (a component of detection risk) is defined as the information used by the accountant to provide a reasonable basis for the obtaining of moderate assurance. It contemplates that information and evidence that comes to the accountant's attention about internal control, through the use of inquiry and the performance of internal control services, if applicable. It does not require a formal study and understanding of internal control, but it allows an accountant to apply professional judgment in determining the specific nature, timing and extent of review procedures.

In general the timing of an assurance procedure (*i.e.*, audit or review) will only be impacted by the reliance of internal control. Therefore, the exposure draft is clearly linking the possible reliance of internal control with the timing of procedures in a review engagement.

In order to properly respond to any assurance risk, the accountant would have to have a sufficient understanding of the risk of material misstatement which is comprised of inherent and control risk. With the limited methods used in a review of obtaining information about the risk of material misstatement and without the requirement to access the risk of a material misstatement, we do not believe that a risk-based approach is appropriate. The exposure draft also increases the level of assurance from a low level to a moderate level which implies a far greater amount of assurance than is contemplated in a review engagement. While this may be a conforming change to international and attest standards, it implies a greater level of assurance than can be obtained by the performance of review procedures.

Because the accountant is supposed to restrict review risk to a moderate level (under the assurance model the auditor is supposed to restrict audit risk to a low level or, for example, 5% to 10%) under a review, would a moderate level review risk be restricted to 50%? If so, we contend that without a proper assessment of the risk of material

misstatement, a moderate level of review risk cannot be obtained. Therefore, the level of assurance should not be changed from a low level to a moderate level.

We assert that by introducing a risk-based conceptual framework in a review, it will increase the standard of required performance and force the accountant to consider the internal control structure and will require procedures beyond inquires and analytical procedures. Also, without providing specific guidance about the sufficiency of review evidence, it will increase the variation in the quantity of evidence.

We suggest that ARSC withdraw this risk-based conceptual framework and introduce a judgment-based conceptual framework in which information or evidence coming to the accountant's attention during the performance of review procedures indicating that a material misstatement exists would trigger the accountant to obtain more evidence to assist him or her to decide whether a misstatement exists.

Internal Control Services

The wording and examples listed under the above paragraphs under both Compilation and Review standards need to incorporate better those services that are in fact able to be provided without an adverse effect on independence under Ethics Interpretation 101-3, *Performance of other services*. The wording in these paragraphs might trigger further misunderstanding of which services affect independence. While we understand that the SSARS standards do not establish nor interpret independence standards, further clarification would help eliminate misunderstanding and consistency between the ethics and SSARS standards. For example, under what circumstances might an accountant perform bank reconciliations? or what is normally a control function without their independence being impaired?

Relevant Definitions:

Other comprehensive basis of accounting (OCBOA) – the definition includes three examples and excludes the fourth permitted type of OCBOA financial statements. It lists regulatory requirements, income tax basis and cash basis as examples. It might be interpreted not to permit statements prepared on a definite set of criteria having substantial support as permitted in SAS no. 62, *Special Reports*, under AU623.04

We suggest that a definite set of criteria having substantial support be included as a fourth example in the list:

Assurance engagement–The definition seems to imply that compilations are now an assurance service. While under the definition of a compilation engagement, it is clear that a compilation is not an assurance service. At first glance, the reader might assume otherwise. Primarily because ARSC has introduced a “conclusion” paragraph into a compilation and the definition of assurance refers to the accountant's conclusion. The definition also excludes other assurance services where no accountant's report is issued, which we believe narrowly defines assurance engagements.

Compilation of Financial Statements

Establishing an Understanding

Paragraph 5 states that when financial statements are not expected to be used by a third party, the accountant is required (because of the use of the word “should”) to include in the signed engagement letter an acknowledgment of management’s representation and agreement that the financial statements are not to be used by a third party. This language infers that it is mandatory to include this wording in the engagement letter.

We believe this is an unintended interpretation, and that paragraph 5 should be redrafted to permit the accountant the option to conduct the engagement using the standard letter even though the financial statements will not be used by a third party.

Internal Control Services

The internal control services definition (¶18-19) assumes that the accountant will not be considered independent if he or she performs internal control services. This is contrary to Ethics Interpretation 101-3 under which such services would not impair independence if the client could perform the services but opts for the accountant to perform the tasks while retaining the authority to review and approve their services.

Subsequent Discovery of Facts Existing at Date of Report

Paragraph 56 should be amended to state, “The following guidelines should govern the content of any disclosure made by the accountant in accordance with paragraph 55 to persons other than his or her client, *unless the accountant’s attorney recommends a different course of action.*” If disclosure is made without the client’s consent, then it might lead to litigation. See ¶55 for a similar caution.

Reporting on Compiled or Reviewed Financial Statements

The explanatory materials (pages 10 - 11) include a description of a new four paragraph compilation and review report, yet the wording in Exhibit B for Compilations and in Exhibit G for Reviews (and references to the respective report letters in the exposure draft) display the existing report letters.

We were not sure, if this was an error or just an exposure draft necessity. We kindly request that all examples and references in the final standard conform to the wording of the final four paragraph versions of the compilation and review report letter.

Exhibits

Exhibit A—Illustrative Compilation Engagement Letter: The engagement letter should include the following four criteria that the client must agree to perform, as noted in Ethics Interpretation 101-3 in connection with any non-attest services as follows:

- a. Make all management decisions and perform all management functions;
- b. Designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluate the adequacy and results of the services performed; and

- d. Accept responsibility for the results of the services.

As there is no representation letter in a compilation engagement, this would be the best method for the accountant to document compliance with Ethics Interpretation 101-3.

Exhibit B—Illustrative Compilation Reports: The reports should include example reports for Modified Cash Basis and Income Tax Basis financial statements.

Review of Financial Statements

Establishing an Understanding

In paragraph 4, the last bullet point, it states, “The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach an agreement in advance with the entity on the nature of such matters to be communicated.” The use of the term nature can be misconstrued as compared to a previously agreed upon dollar level.

Review Performance Procedures

Paragraph 6 states that procedures should be designed to accumulate review evidence sufficient to restrict review risk to a moderate level. We believe that the introduction of the terms such as “evidence” and “risk” will be interpreted as increasing the level of what is required for reviews. Our view is that this would, in some instances, be interpreted by some practitioners to apply risk assessments similar to audits. What is a moderate level of assurance, 30%, 50%, 70% confidence? Is this a greater barometer of steps than has been traditionally performed in reviews applying analytical procedures and inquiries?

Knowledge of the Client

Paragraph 13 states that if the accountant has evidence that a control is operating effectively, the accountant can use that evidence in tailoring the nature, timing and extent of review procedures. This implied reliance on controls seems to mimic audit literature with the potential result that practitioners might mistakenly believe that additional work with regard to internal controls might be required in reviews.

Designing and Performing Review Procedures

Paragraph 16 states that analytical procedures may be performed at the financial statement level or at the detailed account level. This may be misconstrued as requiring preliminary analytics, and is not the case in a review.

Internal Control Services

The internal control services definition (§ 26-29) assumes that the accountant will not be independent if he or she performs internal control services. The reality is that there are many cases in which accountants perform these services and are in compliance with Ethics Interpretation 101-3 and are independent. The exposure draft does not discuss Ethics Interpretation 101-3, and the results might be an incorrect conclusion that independence is impaired. The relationship between Ethics Interpretation 101-3 and internal control services must be explained in greater detail and in a clearer fashion.

Reporting on the Financial Statements

Reporting When the Accountant Performs Internal Control Services

With regard to ¶35, we recommend consideration of Ethics Interpretation 101-3.

Exhibits

Exhibit A –Illustrative Review Engagement Letter: The engagement letter should include the following four criteria that the client must agree to perform as noted in Ethics Interpretation 101-3 in connection with any non-attest services as follows:

- a. Make all management decisions and perform all management functions;
- b. Designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluate the adequacy and results of the services performed; and
- d. Accept responsibility for the results of the services.

Exhibit E–Illustrative Representation Letter: References to various accounting pronouncements should be changed to conform to the FASB Accounting Standards Codification references.