

new york state society | of

# NYSSCPA

certified | public accountants

530 fifth avenue, new york, ny 10036-5101  
www.nysscpa.org

June 26, 2002

Sherry Boothe  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

sboothe@aicpa.org

Dear Ms. Boothe:

The New York State Society of Certified Public Accountants, the nation's oldest state accounting association, represents approximately 30,000 CPAs whose audit and attest engagements are affected by the AICPA Auditing Standards Board's (ASB) interpretations and rulings. NYSSCPA thanks ASB for the opportunity to comment on its Exposure Draft on the **Proposed Statement on Auditing Standards, Amendment to Statement on Auditing Standards No. 50, Reports on the Application of Accounting Principles.**

The NYSSCPA Accounting and Auditing Oversight Committee contributed to the attached comments, which were drafted by the Auditing Standards and Procedures Committee. If ASB would like additional discussion with the committee, please contact Auditing Standards and Procedures Committee Chair William M. Stocker III, at (212) 503-8800, or NYSSCPA Staff, Robert H. Colson, at (212) 719-8350.

Sincerely,



Jo Ann Golden  
President

Attachment

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

**COMMENTS ON**

**EXPOSURE DRAFT:**

**PROPOSED STATEMENT ON AUDITING STANDARDS**

*Amendment to Statement on Auditing Standards No. 50, Reports on the  
Application of Accounting Principles*

**Principal Drafters**

**William M. Stocker, III  
Fred R. Goldstein  
Robert N. Waxman**

**May 31, 2002**

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Robert H. Colson

**NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS  
AUDITING STANDARDS AND PROCEDURES COMMITTEE'S  
COMMENTS ON**

***PROPOSED STATEMENT ON AUDITING STANDARDS: Amendment  
to Statement on Auditing Standards No. 50, Reports on the Application of  
Accounting Principles.***

**General Comments**

The Committee appreciates the opportunity to comment on the proposed amendment to SAS 50, which would prohibit an accountant from providing a written report on the application of accounting principles not involving facts and circumstances of a specific entity (hypothetical transactions). The Committee recognizes the validity of many of the concerns about the past and current use of SAS 50 letters for hypothetical transactions, and, clearly, there would be no way that an accountant issuing such a letter could ever know the facts and circumstances of past and current accounting policies at a specific entity that might enter a transaction covered in an SAS 50 letter. The Committee would request, however, that the Auditing Standards Board reconsider whether banning SAS 50 letters for hypothetical transactions is the appropriate audit standard response. Such SAS 50 hypothetical transaction letters are generally sought by financial services company as part of a product offering rather than by a specific company entering the transaction, although there are other uses. It seems to the Committee that, despite concerns that such reports have been abused, mostly by continuing auditors, making it possible for financial services firms to obtain opinions from accountants expert in the application of generally accepted accounting principles is useful and valuable to the public interest. The understanding of how an expert accountant believes that a type of transaction will be reported in financial statements will enhance financial innovation and provide useful information to potential transaction participants. The Committee also believes that other possible uses by financial services firms and others that do not involve public companies are similarly valuable. The Committee further believes that it would not be in the best interest of the public to ban the letters in such circumstances simply to target certain possible public company abuses.

It appears to the Committee that it would be more appropriate to focus the audit standard on the timely review by the continuing auditor, before the company engages in the transaction, to determine if the hypothetical treatment would be appropriate in the specific case. The Committee further suggests that auditing standards be amended to require a higher degree of scrutiny and responsibility by the auditor when the entity uses a SAS 50 letter for a hypothetical transaction, rather than what by practice may have come to be a lower degree of scrutiny. Such amendment to the standards might, if necessary, include an outright prohibition on the auditors' consideration of the SAS 50 letter in formulating his or her conclusion.

The Committee also suggests that the SEC is in a position to curb the possible abuses, about which it and others are concerned. Perhaps it could prohibit those accountants who practice before it from issuing SAS 50 letters on hypothetical transactions. Alternatively, such rule should only prohibit the accountant from practicing before the SEC when it issues such letters and audits more than X number of registrants.

The Committee believes that such targeted approaches toward addressing the specific concerns would better serve the needs of the public than would a change in general standards that would result in the wholesale elimination of the delivery of a valuable service.

### **Specific Comments**

- Footnote 2 refers to ET section 92.09 while its content is more consistent with ET 92.23.
- In paragraph 4, in addition to the list of circumstances where the Statement should not apply, consider adding: “arbitration, mediation, and other methods of dispute resolution.”
- In paragraph 6, consider changing “information” to “relevant data” in order to conform to the language in the General Standards ET Section 201.
- In paragraph 7, consider changing “generally accepted accounting principles” to “accounting principles”, which footnote 1 defines.
- Consider an additional illustrative letter for a report that shows the effect of such transactions on an entity’s financial statements.