

*new york state society of*

# NYSSCPA

*certified public accountants*

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

August 1, 2003

Mr. D. Dean Beddow  
Senior Technical Manager  
AICPA Peer Review Program  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ, 07311-3811

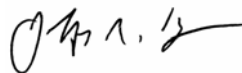
Via e-mail to: [dbeddow@aicpa.org](mailto:dbeddow@aicpa.org)

Dear Mr. Beddow:

The New York State Society of Certified Public Accountants (NYSSCPA), the oldest state accounting association representing approximately 30,000 CPAs, is pleased to respond to the AICPA's request for comments regarding the recently issued Exposure Draft - Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews.

The NYSSCPA Peer Review Committee drafted the attached comments. Members of the committee would be pleased to meet with you for additional discussion about the comments. Please contact David C. Pitcher, the Committee's chair, at (716) 454-4161 or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303 if such discussions would be helpful.

Sincerely,



Jeffrey R. Hoops  
President

Attachment

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

**Comments to the AICPA Peer Review Board**

**On**

**Exposure Draft - Proposed Revisions to the AICPA Standards for  
Performing and Reporting on Peer Reviews**

**August 1, 2003**

**Principal Drafters**

**David C. Pitcher, CPA  
Thomas O. Linder, CPA  
Burgman E. Connolly, CPA**

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## NYSSCPA Staff

Ernest J. Markezin

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

## **Comments to the Peer Review Board**

**On**

### **Exposure Draft of Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews**

**August 1, 2003**

#### **General Comments**

The consensus of the New York State Society of Certified Public Accountants (NYSSCPA) Peer Review Committee confirms that the proposed revisions to the AICPA Standards for performing and reporting on peer reviews will constitute a significant improvement to current standards, and consequently, the NYSSCPA endorse the issuance of the proposed standards.

The NYSSCPA also sees opportunities for making further improvements to the proposed standards and respectfully submits the following comments.

#### **Specific Comments**

##### Substandard Engagements

Paragraph 41 of the proposed standard explained that "...an engagement is ordinarily considered substandard when deficiencies, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represent omission of a critical accounting, auditing, or attestation procedure required by professional standards...." The meaning of the word "material" as used in the explanation is of concern.

The word "material" connotes some quantitative measure in the mind of the reader, which begs the question of how large the deficiency must be to distort the understanding of the user of the report or financial statement. Instead of "material" the NYSSCPA suggests using the word "significant" or "essential." Either word would imply that an "important" element is missing from the report or the accompanying financial statements.

## Notification of Significant Acquisition or Divestiture

Paragraph 48 of the proposed standards explained that a significant acquisition to the reviewed firm's practice or the divestiture of a significant portion of the practice during the year under review may have a severe impact on the scope of the review and, consequently, should be reported to the administering entity in order to ensure that the scope of engagement selection is appropriate, or if other actions need to be taken. However, on page 14 of 20 in the explanatory section of the proposed standards entitled "Notification of Significant Acquisition or Divestiture of a CPA Firm" the party to whom the reviewed firm should report a change in firm size is stated as the AICPA staff, not the administering entity. The NYSSCPA suggests that this inconsistency be clarified or changed in the final document.

## Public files

Section 4100.16 of the Standards for System Reviews currently requires copies of the report, letter of comments, and reviewed firm's letter of response to be forwarded to the public files of the Division for CPA Firms. Similar requirements do not currently exist in the standards for firms not enrolled in the Division for CPA Firms.

The Board should consider reports and letters of comments pertaining to all reviews for addition to the public files as is currently done for the Division for CPA Firms engagements.

## Mandatory Scope Limitation

The proposed standards (paragraphs 43, 49, 50) would require the issuance of a report with a scope limitation if an engagement has been excluded from the listing to be reviewed, unless the engagement has been referred to the AICPA or monitoring CPA Society pursuant to an ethics investigation, and the reviewer concludes that the exclusion of the report does not materially affect the overall engagement selection. This is the only exception granted when the engagement list has been determined to be incomplete.

The financial information in a firm's file is confidential client information. Only the client can determine who is to see that information and there are legitimate business reasons for the client to withhold that information.

The Board should consider a second exception to the mandatory scope modification paragraph if the reviewed firm has a client who legitimately withholds his information from the peer review and the reviewer's sample selection as a whole was not qualitatively affected. This option would reinstate an element of "judgment" to the report process and not penalize a firm for a legitimate client decision.

## Letter of Comments

The Standards currently call for mandatory letters of comments if a modified or adverse review report is issued. Section 3400.01 of the Program describes the criteria for

including an item in the letter of comments as having a “very low threshold criteria” those results in letters of comments for most system reviews.

The finding of a substandard engagement exceeds the “low threshold criteria” and, therefore, the NYSSCPA recommends that the Standards be changed to mandate a letter of comments whenever a substandard engagement is identified by the reviewer, even if an unmodified report is issued.

### Feedback

The present terms “peer review,” “system review,” “engagement review” and “report review” are the equivalent of brand names, signifying the processes used by the AICPA in monitoring the systems of member firms. The names adequately describe the types of services provided by peer reviewers and review teams, and no changes are needed at this time.

The NYSSCPA also supports the Board’s position for greater transparency of the Peer Review Program by increasing public access to the results of peer reviews.