

July 2, 2008

Ms. Sherry Hazel  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

By e-mail: Shazel@aicpa.org

**Re: Proposed Statement on Auditing Standards No. 114 (Redrafted),  
*The Auditor's Communication With Those Charged With Governance***

Dear Ms. Hazel:

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 proposed redrafted Statement on Auditing Standards No. 114.

The NYSSCPA's Auditing Standards and Procedures Committee deliberated the proposed standard and drafted the attached comments. If you would like additional discussion with us, please contact Robert N. Waxman, Chair of the Auditing Standards and Procedures Committee, at (212) 755-3400, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Sharon Sabba Fierstein  
President

Attachment

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

**COMMENTS TO**

**THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
ON PROPOSED STATEMENT ON AUDITING STANDARDS NO. 114 (REDRAFTED),  
*THE AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE***

**July 2, 2008**

**Principal Drafters**

**Robert W. Berliner  
Robert N. Waxman  
Anna Zubets**

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Ernest J. Markezin

## New York State Society of CPAs

### Comments to the American Institute of Certified Public Accountants

#### **Proposed Statement on Auditing Standards No. 114 (Redrafted), *The Auditor's Communication With Those Charged With Governance***

We support the proposed redrafted Statement on Auditing Standards No. 114. We considered the specific issue highlighted on page 5 of the Exposure Draft regarding communication of risks of material misstatement. The Standard should specifically require the discussion of issues of risk and materiality with those charged with governance. While we agree with the majority of Auditing Standards Board members that such discussion should be encompassed in the auditor's communication of the planned scope and timing of the audit, this view is not reflected in paragraph A17. Paragraph A17 merely states that "communication regarding the planned scope and timing of the audit *may* assist...those charged with governance to discuss issues of risk and materiality with the auditor..." [emphasis added]. As currently drafted, paragraph A17 does not explicitly require the auditor to initiate the discussion of issues of risk and materiality with those charged with governance.

Meaningful discussion of audit planning needs to incorporate a robust discussion of materiality and risks affecting the entity. Accordingly, the discussion of issues of risk and materiality as part of the auditor's communication with those charged with governance should be made a requirement of the Standard. The Standard should include cautionary guidance that in discussing materiality, the auditor should be especially careful not to compromise the effectiveness of the audit by making the audit scope and procedures predictable.

With respect to specific questions raised on page 6 of the Exposure Draft, our comments are as follows:

**(1) Are the objectives to be achieved by the auditor, stated in the proposed SAS, appropriate?**

Yes, the objectives are appropriate. However, the objectives would be clearer if the requirement to provide "an overview of the planned scope and timing of the audit" were made into a separate line item in paragraph 5 (*i.e.*, item 5(b)).

**(2) Are revisions from the existing standards to converge with ISA 260 appropriate?**

Yes, the revisions are appropriate. We note that the revised version of the Standard does not include paragraph 10 of the original SAS 114, which stated:

"In certain circumstances, the auditor may be required to report to a regulatory or enforcement body certain matters communicated with those charged with governance. For example, governmental auditing standards require auditors to report fraud, illegal acts, violations of provisions of contracts or grant

agreements, and abuse directly to parties outside the audited entity in certain circumstances.”

The Supplementary Material to the Exposure Draft indicates that this paragraph was deleted to converge with ISA 260. However, we note that this requirement for reporting to regulatory or enforcement bodies is in fact included in ISA 260 at paragraph A39, but was not carried forward to this Proposed Statement. We believe that the above paragraph is helpful and relevant to auditors; accordingly, the Auditing Standards Board should consider retaining it in the redrafted version of SAS 114.

**(3) Are the differences between the proposed SAS and ISA 260 identified in exhibit B, and other language changes, appropriate?**

Yes, the differences between the standards and other language changes are appropriate, except as indicated in our response to question (2).

**(4) Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?**

Yes, we did not identify any additional considerations that should be addressed by the Standard with respect to audits of smaller, less complex entities and governmental entities.