October 1, 2003

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, Fl 14
New York, NY 10017

By e-mail: Edcomments@ifac.org

Re: Proposed IAS “Review of Interim Financial Information Performed by the Auditor of an Entity”

The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, welcomes the opportunity to comment on the above-mentioned IAASB exposure draft.

The NYSSCPA’s International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Robert N. Waxman, chairman of the Committee, at (212) 468-7820, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jeffrey R. Hoops
President

Attachment
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INTERNATIONAL ACCOUNTING AND AUDITING COMMITTEE

COMMENTS ON PROPOSED IAASB EXPOSURE DRAFT

Review of Interim Financial Information Performed by the Auditor of an Entity

October 1, 2003
NYSSCPA 2003 - 2004 Board of Directors

Jeffrey R. Hoops,  
President  
John J. Kearney,  
President-elect  
Thomas E. Riley,  
Secretary  
Arthur Bloom,  
Treasurer  
Sandra A. Napoleon-Hudson,  
Vice President  
Steven Rubin,  
Vice President  
Vincent J. Love,  
Vice President  
Raymond M. Nowicki,  
Vice President  
Louis Grumet, ex officio  

William Aiken  
Spencer L. Barback  
Michael G. Baritot  
Rosemarie A. Barnickel  
Peter L. Berlant  
Andrew Cohen  
Ann B. Cohen  
Michelle A. Cohen  
Michael J. DePietro  
Katharine K. Doran  
Barbara S. Dwyer  
Robert L. Ecker  
Mark Ellis  
David Evangelista  
Peter H. Frank  
Jo Ann Golden  

Neville Grusd  
David W. Henion  
Raymond P. Jones  
Nancy A. Kirby  
David J. Moynihan  
Kevin J. O’Connor  
Robert S. Peare  
Richard E. Piluso  
Mark A. Plostock  
Joseph J. Schlegel  
Robert E. Sohr  
Robert A. Sypolt  
Robert N. Waxman  
Howard D. Weiner  
Philip G. Westcott  
Philip Wolitzer  

NYSSCPA 2003 - 2004 Accounting & Auditing Oversight Committee

Robert E. Sohr, Chair  
Gary E. Carpenter  
Joseph W. Duggan  
Robert A. Dyson  
David J. Hasso  
Michele M. Levine  
Thomas O. Linder  
Eugene D. Mahaney  
Robert S. Manzella  
Eric J. Rogers  
Mitchell Rosendorf  
Steven Rubin  

Ira M. Talbi  
George I. Victor  
Paul D. Warner  
Robert N. Waxman  
Paul J. Wendell  
Margaret A. Wood  

NYSSCPA 2003 - 2004 International Accounting and Auditing Committee

Robert N. Waxman, Chairman  
Srijit Banerjee  
Renee D. Bomchill  
Rahul Dalia  
Patrick Edgar  
Gregory J. Lavin  
Mary E. Oliverio  
Wijeyanand Pathmanathan  
Lewis Shayne  
William M. Stocker III  
George Victor  
Robert G. Weinert  

NYSSCPA Staff

Robert H. Colson
New York State Society of Certified Public Accountants
COMMENTS ON PROPOSED IAASB EXPOSURE DRAFT
Review of Interim Financial Information Performed by the Auditor of an Entity
October 1, 2003

General Comments
This Standard should either identify all the differences between it and the requirements of IAS 910 “Engagements to Review Financial Statements” or be combined and fully integrated with IAS 910. For clarity and comprehensiveness, we strongly recommend full integration with IAS 910.

Specific Comments

• Paragraphs 2 and 3. Paragraph 3 provides for a review based on the request of those charged with governance. The limits on the use of this ISA to meeting three criteria in paragraph 2, however, create an inconsistency between the two paragraphs. To avoid this inconsistency, governance should be added to the lead-in sentence of paragraph 2.

• Paragraph 4. Without actually having performed an audit, a newly appointed auditor is unlikely to have attained the understanding sufficient to use this Standard (and not IAS 910). In addition, the successor auditor may not be able to perform certain of the procedures specified in paragraph 15, such as those found in bullets one, two and five. Although paragraph 18 indicates the use of alternative procedures, further guidance is needed.

• Paragraph 8. We suggest sharpening the meaning of “over generalizing when drawing conclusions from inquiries” and “using faulty assumptions....” In an interim review, an attitude of professional skepticism may neither permit nor stop “over generalizing.” The same comment applies to professional skepticism as it relates to using faulty assumptions. To overcome jumping to conclusions (i.e., generalizing) or reaching faulty conclusions, the auditor must ask more questions or perform more analytical reviews. Therefore, if professional skepticism means extended procedures, then this statement should simply say that.

• Paragraph 10. Exactly what procedures are in the standard that will reduce the risk that financial information is materially misstated? Are inquiries and analytical procedures sufficient to reduce the risk of materially misstated financials to a moderate level? Short of the procedures performed and evidence gathered in an audit, the steps performed in an interim review are unlikely to reduce material risks of misstatements?

We recommend that this paragraph should only discuss the review providing a basis to report on whether the auditor is aware of any material modifications to be
made, and not address the risk of misstatement. In addition, the paragraph uses “moderate” in the context of an interim review without defining the term.

- Paragraph 12, bullet 5. A cross-reference to the standards discussing internal controls (ISA 400) would be helpful.

- Paragraph 14. We recommend that this Standard contain examples of the analytical procedures the auditor should take to ensure that the risk of a misstatement of an estimate is held to a moderate level.

- Paragraph 15. If an audit has never been done, it is debatable if an auditor can perform sufficient procedures to establish a basis to perform an interim review. It would be very difficult to perform an interim review contemplated by this standard if an entity has never been audited and, therefore, suggest that this standard should either specifically address this situation, or leave it to auditor judgment.

- Paragraph 15, bullet 6. Insert the word “material” before “weaknesses in internal control.” In addition, if internal control deficiencies that were not material weaknesses were identified during the previous audit, consideration should be given to those items as part of the review.

- Paragraph 15, last bullet. Does the potential effect of the change apply only to past interim financial statements, to the potential impact apply to future interim statements, or to both? Some on the committee interpreted this to mean changes since the last audit and their impact. SEC Release 33-8238 Regulation S-K Item 308(c) says that any change in internal control over financial statements during the quarter must be reported if it materially affected, or is reasonably likely to affect [in the future], the company’s internal control.

- Paragraphs 17 and 18 should provide further guidance on what should be done for reviews of interim financial information by successor auditors before they complete their first audit.

- Paragraph 19, last sentence. The phrase “should consist primarily of applying analytical procedures” implies there are other procedures, yet this standard has no other procedures to follow (other than making inquiries). We recommend the deletion of the word “primarily.”

- Paragraph 21, bullet 2. If the term “associates” is defined anywhere in the auditing standards, then it should be cross-referenced to its definition. If not, then it should be defined here.

- Paragraph 21, bullet 3. The inquiry – “Whether the interim financial information contains any known uncorrected misstatements” needs follow-up steps, such as “what information is misstated,” “why is it misstated,” “why is it uncorrected,” “is this an internal control weakness,” “is it material,” etc.

Additional steps should be taken to ensure that

- changes in accounting policies and procedures have been disclosed and properly accounted for under the reporting framework,
- management has performed tests for impairments,
- estimates are “reasonable,” and
- management has a process to determine how reasonableness is determined.

- Paragraph 25. Is inquiry alone sufficient? Is ‘inquiry’ evidence? Does inquiry give the auditor the best competent credible evidence or only circumstantial evidence? For example, where there is a going concern issue, the auditor would normally want to do more than make inquiries. See paragraph 28.

- Paragraph 28. Does not the auditor have some responsibility when the feasibility of management’s plans is doubtful in the view of the auditor?

- Paragraph 34. We recognize that these are only suggested; however, representations concerning the impairment of assets would be a useful addition.

- Paragraph 38. The discussion of the possible communication to a regulatory authority should be a basic principle and in bold at Paragraph 36.

- Appendix 3, example report, paragraph 2, last sentence. Because it is implied, we would insert “any” before the word “assurance.” On the other hand, would there be any value to a report that indicates it does not provide any assurance? Maybe the last two sentences should be revised to say:

  “A review is substantially less in scope that an audit in accordance with International Standards on Auditing and, accordingly, we do not express an audit opinion.”

In addition, is the last sentence in the first paragraph appropriate or required? The auditor’s responsibility is to report whether any material modification is required. Why should the auditor assume a responsibility to “report”? The last sentence in the first paragraph could be deleted and the requirements of paragraph 44 would still be met.