

*new york state society of*

**NYSSCPA**

*certified public accountants*

530 fifth avenue, new york, ny 10036-5101

www.nysscpa.org

October 1, 2003

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

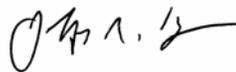
By e-mail: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

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

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**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**

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# **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 than 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.