

January 31, 2011

Ms. Sherry Hazel
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By e-mail: shazel@aicpa.org

Re: Proposed Revised Statement on Auditing Standards, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

The New York State Society of Certified Public Accountants, representing more than 27,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Auditing Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Jan C. Herringer, Chair of the Auditing Standards Committee at (212) 885-8133, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Margaret A. Wood
President

Attachment

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

COMMENTS ON

**PROPOSED REVISED STATEMENT ON AUDITING STANDARDS,
*FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH A FINANCIAL
REPORTING FRAMEWORK GENERALLY ACCEPTED IN ANOTHER COUNTRY***

January 31, 2011

Principal Drafters

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New York State Society of Certified Public Accountants
Auditing Standards Committee

Comments on

Proposed Revised Statement on Auditing Standards, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

The New York State Society of Certified Public Accountants is pleased to submit the following comments in response to the Auditing Standards Board's (ASB) request for comments on the above referenced proposed revised standard. In addition to our response to the specific request for comments set out in the "Explanatory Memorandum," we have provided additional comments (general and paragraph level) for your consideration.

Request for Specific Comments

The ASB asks respondents to consider whether

- a. the requirement to include an emphasis of matter paragraph in the auditor's report when financial statements prepared in accordance with a financial reporting framework generally accepted in another country also are intended for use in the United States and**
- b. the elimination of the concept of limited use**

are appropriate.

We agree that an emphasis of matter paragraph should be required and the limited use concept contained in the previous September 30, 2009, Exposure Draft should be eliminated from the final standard.

General Comments

To enhance the clarity of the final standard, we recommend including a "Definitions Section," that would include definitions of the following terms:

- Auditor practicing in the United States (paragraph 1).

We recognize that this phrase appears in extant AU Section 534, *Reporting on Financial Statements Prepared for Use in Other Countries*; however, it is not defined in the auditing literature, and the phrase may be subject to varying interpretations. For example, some might interpret the phrase to mean an individual or firm physically located in the United States that is (a) a registered public accounting firm, (b) an AICPA member, or (c) an individual or firm that is neither registered nor an AICPA member (and is therefore not required to comply with the AICPA *Code of Professional Conduct*).

In defining this term, we suggest providing a reference to ET Section 92.27 of the AICPA *Code of Professional Conduct*, which defines the practice of public accounting.

- Financial reporting framework generally accepted in another country (paragraph 1):

In defining this phrase, we suggest moving the following sentence from paragraph 1 to the proposed “Definition Section:” “Financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country not adopted by a body designated by the Council of the AICPA (Council) to establish generally accepted accounting principles (GAAP).”

- Jurisdictional variation of IFRS (paragraph 3).

To ensure all users have the same understanding of this term, we suggest defining the term as follows (which is consistent with extant AU Section 9508.96, *Reports on Audited Financial Statements*):

Financial statements are considered to be a jurisdictional variation of IFRS when they do not contain an explicit and unreserved statement of compliance with IFRS as issued by the IASB.

- Fair presentation framework (paragraph 7(a))

This paragraph should be referenced to its definition in the proposed Statement on Auditing Standards, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

Paragraph Level Comments

Paragraph 1

The incorporation of a “Definitions Section” in this standard (as suggested above) would result in a revision to paragraph 1 as follows (additions are shown in bold text and deletions in strikethrough text):

1. This proposed revised Statement on Auditing Standards (SAS) addresses circumstances in which an auditor practicing in the United States is engaged to report on financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country ~~not adopted by a body designated by the Council of the AICPA (Council) to establish generally accepted accounting principles (GAAP) (hereinafter referred to as a financial reporting framework generally accepted in another country)~~ when such audited financial statements are intended for use outside the United States (U.S.). This proposed revised SAS is not intended to preclude the use of such audited financial statements in the U.S.

Paragraph 2

To simplify this paragraph, pursuant to the clarity conventions, we recommend moving the following references to a footnote. Therefore, the first sentence of paragraph 2 would read as follows:

2. Pursuant to Rule 202, *Compliance With Standards*¹(~~AICPA, *Professional Standards*, vol. 2, ET sec. 202 par. .01~~), and Rule 203, *Accounting Principles*²(~~AICPA, *Professional Standards*, vol. 2, ET sec. 203 par. .01~~), the Council designates the bodies to establish GAAP.

Footnotes:

1. AICPA, *Professional Standards*, vol. 2, ET sec. 202 par. .01

2. AICPA, *Professional Standards*, vol. 2, ET sec. 203 par. .01

Paragraph 6

We believe the “objective” should reflect the exception in paragraph 1, that is, “[T]his proposed revised SAS is not intended to preclude the use of such audited financial statements in the United States.”

Further, we believe the “objective” should reflect the inclusion of an emphasis of matter paragraph in reports also intended for use in the United States (per paragraph 13).

Paragraph 9

Paragraph 9 includes the phrase, “...except for requirements related to the form and content of the report.”

We understand this exception to mean that the report in Exhibit A, “Illustration 1” might not necessarily be used. If this understanding is correct, we recommend that this exception be clarified.

Paragraph 10

We recommend either deleting the requirement for the auditor to obtain an understanding of the framework when reporting on financial statements prepared in accordance with a financial reporting framework generally accepted in another country, or moving it to application guidance in paragraph 9, because such an understanding is already required as part of the clarified SAS, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements*.

Paragraph 12(a)

We recommend including a reference to Exhibit A, “Illustration 1,” and that the use of the word “nationality” be changed to “country.” If there is some distinction between these terms, they should be defined so that that the distinction is made.

Paragraph A1

Paragraph A1 explains, “In obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, the auditor might consider

whether the intended users are likely to be familiar with the applicable financial reporting framework.”

Assuming the auditor makes a determination about whether it is likely that users are familiar with the reporting framework, it is unclear what impact this determination would have on the auditor’s acceptance of the engagement, what other procedures the auditor should then consider, or what (if anything) should be included in the engagement letter concerning the intended users. We recommend that more guidance be included in the “Application and Other Explanatory Material.”

Paragraph A2

This paragraph uses the term “GAAP,” whereas paragraph 13 uses the term “U.S. GAAP” to refer to what we believe are the same Generally Accepted Accounting Principles. We suggest revising this paragraph (and all others in which the term GAAP is used to refer to U.S. GAAP) to state:

“The accounting principles used to prepare such financial statements may differ from those prepared in accordance with U.S. GAAP, and such differences may affect the auditor’s procedures.”

Paragraph A3, A6 and A7

References to using an expert (or experts) are found in paragraphs A3, A6, and A7 as follows:

A3. “...the auditor may consult with persons having expertise in applying the financial reporting framework of the other country.”

A6. “The auditor may also consult with persons having expertise in, including practical experience in applying, the auditing standards of the other country or the ISAs, as relevant.”

A7. “Accordingly, depending on the nature and extent of the auditor’s knowledge and experience, the auditor may consult with persons having expertise in the audit reporting practices of the other country and associated legal responsibilities to obtain the understanding needed to issue that country’s standard report.”

Neither ISA 620, *Using the Work of an Auditor’s Expert*, nor AU 336, *Proposed Statement on Auditing Standards Using the Work of an Auditor’s Specialist*, provides for these types of expertise. We believe the ASB should provide additional guidance in the final standard regarding due professional care and independence in using such experts.