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Comment letters on Proposed Statement on Standards for Attestation Engagements (SSAE), Amendments to SSAE Nos. 1, 2 and 3.

American Institute of Certified Public Accountants. Auditing Standards Board

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July 29, 1998

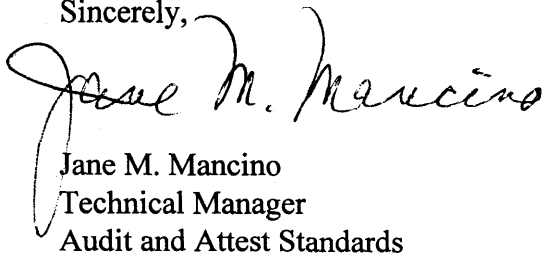
File Ref. Nos. 1120
2155

To the Auditing Standards Board:

Here are the comment letters received to date on the exposure draft of the proposed Statement on Standards for Attestation Engagements (SSAE), *Amendments to SSAE Nos. 1, 2 and 3*.

<u>Name/Affiliation</u>	<u>Location</u>
1. Don M. Pallais, CPA	Richmond, VA
2. Ben Podgor	Massapequa Park, NY
3. Janet Rosman	
4. Abraham Akresh	Potomac, MD
5. Vincent J. Love, CPA Walter M. Primoff, CPA New York State Society of Certified Public Accountants	New York, NY
6. James L. Layton, CPA Maryland Association of Certified Public Accountants, Inc.	Lutherville, MD
7. Anne M. Solitro New Hampshire Society of Certified Public Accountants	Bedford, NH

Sincerely,


Jane M. Mancino
Technical Manager
Audit and Attest Standards

Enclosure

For Reference
Do Not Take
From the Library

/

____ DON M. PALLAIS, CPA _____

mond, Virginia 23233

Telephone: (804) 784-0884

Fax: (804) 784-0885

June 16, 1998

Jane M. Mancino
Technical Manager, Audit and Attest Standards
File 2155
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Jane:

I think the exposure draft for the proposed amendments to the attestation standards represents a beneficial change. Broadening the attestation standards to provide a more direct form of report will make reports generally clearer and easier to understand. I commend the board on its efforts.

The option to report in either of two ways, however, raises a question: is there any reason—outside of the practitioner's preference—to report in one way rather than the other? Are there benefits to one approach in specific circumstances? If so, I think the Board should provide guidance in this area.

I also find the standard somewhat unclear on the need for a written assertion to accompany the practitioner's report. As I understand it, there will always be a separate presentation of the assertion, even if it's only in a representation letter. However, the change to AT 100.47 says that *if* there is a separate presentation, it should accompany the report. This suggests that there might not be a separate presentation of the assertion. Similarly, paragraph 55b suggests that management's assertion might not accompany the presentation. New paragraph 400.03 suggests that the concept isn't a separate *presentation*, but a separate report that accompanies the practitioner's report (however, if that's the case, the concept of a "separate report that accompanies the practitioner's report" seems redundant given the guidance in 100.47). Footnote 17 to SSAE No. 2 indicates that the accountant would report on management's assertion even if it does not accompany the accountant's report. I think the point needs to be clarified: What needs to be attached to the report? A logical approach might be that, if the report opines on management's assertion, rather than on the subject matter, the report should go only to those who also get the presentation of management's assertion.

I also have the following comments, which primarily represent apparent inconsistencies in the proposed standard.

¶ Comment

SSAE No. 1

- 55 Will the inclusion of this guidance necessitate a revision of AT 200? The standard forecast examination report in AT 200.31 does not include items a (title), e (specific reference to attestation standards), f (basis for the opinion), g (the opinion on whether the assumptions provide a reasonable basis does not refer to criteria), or i (signature). Also, although there is a reference to the responsible party in the report on forecasts, there is no explicit statement that the statement is the responsibility of the responsible party.
- 74 The existing consulting standards are over 6 years old. It's a disservice to refer in footnotes 11 and 14 to the previous standards, which were superseded that long ago.

SSAE No. 2

- 1 I don't think "and report on" should be deleted in this paragraph. Without a report the standard does not apply. Similarly, the phrase should continue to follow review (item a and paragraph 6) because reviews are only prohibited if they would result in reports. Clients will still ask for services generically called reviews and practitioners will continue to provide them.
- 31 The change to this paragraph makes its meaning ambiguous. The date management's assertion is being examined could be either the date it is tested or the date as of which the assertion is made. The latter is what's intended, but that isn't clear from the sentence.
- 43 The phrase "or for the specified period" should be deleted from item h. The standard provides guidance only for point-in-time assertions. However: is this paragraph even necessary given new 100.55? I think it would be sufficient to illustrate the reports that comply with the general guidance in AT 100. It would streamline the literature and eliminate the potential for minor inconsistencies to creep into the requirements.
- 44 The standard (AT 400.33c) requires the report to state that the assertion (that controls are effective) is the responsibility of management. This report says that management has represented that it is responsible maintaining effective control. Although the two concepts are related, they are not the same.
- 51 What does the insertion of "to the practitioner" add to the first sentence? Would the result be different if the phrase was deleted? Its inclusion suggests a subtlety that I'm missing. If so, it should be clarified; if not I suggest deleting the phrase.
- 52 The form of report seems to conflict with paragraph 47. Paragraph 47 says that if there is a material weakness, the opinion should be expressed directly on the effectiveness of internal control. This opinion is on management's assertion. The same issue arises in the report in SSAE No. 3, paragraph 63.
- 62 This implies that the accountant's report would have to discuss subsequent events regardless of whether management disclosed them in the assertion. Why would this be, since it doesn't affect the assertion itself and, if management discloses them, they are adequately disclosed? This is not how AU 560 treats the analogous situation in audits of historical financial statements.

¶ Comment

SSAE No. 3

- 6 This purports to be based on the guidance in SSAE No. 1, but it misstates the requirement in new AT 100.14. The requirement here is for the criteria to be stated in or attached to the practitioner's report; AT 100.14a calls for it to be stated in the assertion. If the assertion is not attached to the report it is possible to comply with AT 100.14 yet violate the requirements in this paragraph.

Thank you for the opportunity to comment on this letter. Let me know if you want additional clarification of any of these comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Pallais".

2

Author: "Ben Podgor" <PodgorBen@email.msn.com> at INTERNET

Date: 6/22/98 1:24 PM

Priority: Normal

TO: Jane Mancino at AICPA3

Subject: File 2156

The exposure draft contains 89 pages. Does page 9 contain everything that we are reviewing and all the remainder is discussion. Then, I believe we are moving in the correct direction. If, however the exposure draft is all 89 pages, then I believe we are having the same problem that we have with the Internal Revenue Code. I am a candidate for Assembly in the 12 Assembly District, New York. One of my goals is to get simplification into all rules and regulations. Plain English. Sincerely, Ben Podgor. PodgorBen@msn.com
Benjamin Podgor, 32 Abbey Street, Massapequa Park, NY 11762-3013.

3

Author: "Rosman Janet" <FIJRosma@DOF.CA.gov> at INTERNET
Date: 6/23/98 8:47 AM
Priority: Normal
TO: Jane Mancino at AICPA3
CC: "Hanson Ed" <FIEHANSO@DOF.CA.gov> at INTERNET
Subject: Proposed Statement on Standards for Attestation Engagements

My membership number is 015-31-438. Since we are in the process of updating our current internal control audit program, I am interested in the finalization of this SSAE. In addition, it would help if you could clarify item number 2 below. Thanks for your help and feedback.

>-----
>From: Hanson, Ed
>Sent: Tuesday, June 23, 1998 8:30 AM
>To: Rosman, Janet

>
>
>I have two questions related to the exposure draft amending SSAE 2.

>
>1. When do you anticipate the amendments to SSAE 2 to be finalized?
> I noticed the added comment on page 65, paragraph 81, that refers to the
>application of the amendment effective January 15, 1999, with earlier
>application encouraged. I'm assuming the application is only applicable once
>the amendments have been finalized. So, this gets me back to my original
>question of the finalization date.

>
>2. If a practitioner is engaged to conclude on the internal control and not
>on management's assertion, I understand that management's assertions would
>still need to be obtained as stated in the opening summary of the exposure
>draft on page 6. My confusion relates to the Conditions For Engagement
>Performance as listed pages 32 & 33, paragraph 9. When performing an
>engagement to conclude on the internal controls and not on management's
>assertions, does the client still need to evaluate his or her internal
>control using reasonable criteria as outlined on page 32, paragraph 9(b)?
>Since the focus of the engagement is to evaluate and conclude on the internal
>control, I'm unclear as to the value of having management evaluate the
>controls when the opinion paragraph will not have any reference to
>management's assertion.

>
>

Author: MIME:akresha.aimd@gao.gov at INTERNET
Date: 7/21/98 11:51 AM
Priority: Normal
TO: Jane Mancino at AICPA3
Subject: Amendments to attestation standards

#4

Jane,

The following are my personal comments on the amendments to the attestation standards (File 2155). They are not the comments of the U.S. General Accounting Organization or any organization I am a member of.

I support issuance of these amendments because the revised standards are much better than current standards. Reporting directly on the subject matter allows the practitioner to issue a report that is simpler, more likely to be understood by users, and meet their needs. I especially agree that only direct reporting should be allowed when there are material weaknesses (this should be highlighted in the summary).

There is one thing that can improve the standards further.

The proposed amendment allows 2 different kinds of reporting in the same situation -- either direct reporting on the subject matter or reporting on management's assertion. This will cause confusion among clients and among users of the report. Eliminating the choice by requiring direct reporting would provide benefits to users, clients and practitioners. It would also shorten the standards, another important benefit. Simpler is better!

Abraham Akresh
9209 Gatewater Terrace
Potomac, MD 20854

OFFICERS

GEORGE T. FOUNDOTOS, CPA
ALAN E. WEINER, CPA
RONALD BENJAMIN, CPA
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DAVID A. LIFSON, CPA
P. GERARD SOKOLSKI, CPA
JO ANN GOLDEN, CPA
ARTHUR S. HOFFMAN, CPA
LOUIS GRUMET

PRESIDENT
PRESIDENT-ELECT
VICE-PRESIDENT
VICE-PRESIDENT
VICE-PRESIDENT
VICE-PRESIDENT
SECRETARY
TREASURER
EXECUTIVE DIRECTOR



#5

NEW YORK STATE SOCIETY
OF
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530 FIFTH AVENUE
NEW YORK, NY 10036-5101
(212) 719-8300/FAX (212) 719-3364
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July 20, 1998

Jane M. Mancino
Technical Manager, Audit and Attest Standards
File 2155
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Amendments to Statement on Standards for Attestation Engagements Nos. 1, 2, and 3

Dear Ms. Mancino:

The New York State Society of Certified Public Accountants is pleased to submit the attached comments on the above proposed amendments. The comments were developed by the Society's Auditing Standards and Procedures Committee.

If you have any questions regarding the comments, please call us and we will arrange for someone on the Committee to contact you.

Very truly yours,

Vincent J. Love, CPA
Chair, Auditing Standards and Procedure Committee

Walter M. Primoff, CPA
Director, Professional Programs

Enclosure

cc: Accounting & Auditing Committee Chairs

**New York State Society of CPAs
Auditing Standards and Procedures Committee
Comments on Proposed Amendments to Attestation Standards**

■ We understand that the board views these changes as being basically “editorial,” and has therefore provided a very short comment period. We believe the comment period should be extended since we view the changes as having more significant implications to the profession.

■ We think that changing the reporting model to allow for direct reporting on the subject matter is a positive step. However, allowing for alternative reporting on the assertion underlying the subject matter is problematical. If the new reporting format is an improvement in the “utility” of reporting (as stated in the summary to the exposure draft), then we would expect this format to become prevalent in practice. To permit two forms of reports would be confusing to users. We cannot identify any other reporting models under which equal alternatives are used.

■ When the original report model was developed the auditor’s report and the attestation examination report were distinguishable. The new reporting format would reduce the difference and may create an expectation gap. We suggest a study of user expectations to evaluate whether this is a real issue.

■ Given the differences between audits, reviews and compilations and attestation reports, should not the reporting be significantly different? A plain and simple English statement of the accountant’s opinion should be encouraged in attestation reporting. For instance, on page 54 of the Exposure Draft the opinion states, “... W Company maintained, **in all material respects**, effective internal control over financial reporting as of December 31, 19xx.” What does “in all material respects” mean to any non-accountant reading the report? It would be better to say: “... W Company maintained effective controls and procedures over its financial reporting process that, if consistently applied, should prevent or detect any material errors in the Company’s financial statements as of December 31, 19xx.”

Attestation reports are designed to give assurances to non-accountants on matters beyond financial reporting. The profession should not force an attestation report into an audit format.

■ The discussion included in appendix A and B at AT100.82 and .83 (not in this document) is not included in any of the proposed revisions. This is an opportunity missed. The fact that this material remains in the codification without substantial revision diminishes the standard itself. The appendix material raises the issue that SEC regulations may be “established criteria”. (That has been resolved). It is not helpful to discuss procedural differences with the second standard of fieldwork with four superseded SAS’s. It was difficult to tell whether they were in fact superseded since they appear by issuance number. There are several other problems as well. We note the notation that the material is included from 1986 without revision. Since we know the AICPA has a practice initiative for services related to these standards, why not revise this material as well?

■ In para 68 on page 25 there is a discussion of report restrictions. There is some concern that the

discussion in paragraphs 7 & 8 at AT200.00 which defines general and limited use distribution differently could be problematical. This matter could be clarified by footnote.

July 24, 1998

Jane M. Mancino, Technical Manager
Audit and Attest Standards, File 2155
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Mancino:

The Auditing Standards Committee of the Maryland Association of CPAs has recently reviewed the exposure draft of the proposed Statement on Standards for Attestation Engagements. We appreciate the opportunity to respond on these issues.

On the whole the Committee felt these revisions were an improvement, because they clarify the practitioner's responsibilities and they more realistically meet the needs of clients.

The standards for agreed-upon procedures were changed to eliminate negative assurance under SAS No 75 and SSAE No. 4. The Committee questioned why this trend was not continued in this exposure draft. Furthermore, the Committee felt the wording of a review report should be conformed to the review report language used in SSARS.

p. 6

The example paragraph reporting on management's assertion repeats the phrase "in all material respects".

p.7

The table of contents in the exposure draft should provide the same level of detail as the standard will to assist those in reviewing the exposure draft.

p. 18 para 40 and p 76 para 32

Rather than say "restrict audit risk", the Committee suggested "reduce audit risk" in and wherever it appears.

p. 18 para 40 b.

The Committee felt physical examination, observation, computation, operating tests and inspections are standard tests to obtain evidence. Therefore, they felt the reference should be to "evidence" and not "information."

Jane M. Mancino, Technical Manager
July 24, 1998
Page two

p. 19

The section dealing with reporting standards is difficult to follow. The Committee noted that review engagements are addressed beginning with paragraph 58. The heading for paragraph 61 has been deleted; however, this section does not appear to be related solely to review engagements. Another heading should be used. Also the heading for examination above paragraph 54 is not obvious due to an error in spacing. The heading "agreed-upon procedures" may belong before paragraph 67.

p. 19 para 45

The Committee found the reference to "information" confusing. They suggested "information in the assertion taken as a whole."

p. 20 para 51

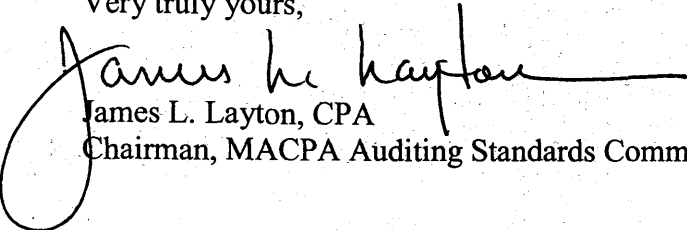
The Committee felt the nature of an omission may be significant regardless of the magnitude. Therefore, they suggested that the nature of the omission should be considered in addition to the size when considering materiality.

p.20 para 51

The first use of the word "established" should be deleted along with the phrase "conformity of a presentation of assertions with..."

If you have any questions or would like to discuss our response with us, please contact me directly at 410-539-4600 or you can reach Carol W. Preston at the Maryland Association of CPAs at 410-296-6250.

Very truly yours,



James L. Layton, CPA
Chairman, MACPA Auditing Standards Committee



New
Hampshire
Society of
Certified
Public
Accountants

July 24, 1998

Jane M. Mancino, Technical Manager
Audit and Attest Standards, File 2155
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

**RE: Proposed Statement on Standards for Attestation Engagements Amendments to:
No. 1 – Attestation Standards; No. 2 – Reporting on an Entity’s Internal Control Over
Financial Reporting; and No. 3 – Compliance Attestation**

Dear Jane:

Our Accounting and Auditing Committee has reviewed the above exposure draft and have the following comments.

Exposure draft focuses on improving the understanding of the conclusions by the practitioner in an attest engagement. Accounting Standards Board recognized the importance of performing attestation engagement within appropriate framework – ensure quality professional services.

General standards, standards of fieldwork (no change), standards of reporting have been edited to delete ‘presentation’ and include ‘based on’ in page 9 document. Attest services are analytical, investigative and concerned with support for the assertions.

Page 21 outlines the practitioner’s report of an examination along with an example of an Independent Accountant’s report. This was helpful to me in my understanding of an attest service.

Reporting on an entity’s internal control over financial reporting. Confusion between study and evaluation of an entity’s internal control and attest service of an entity’s internal control. Paragraph 78, page 64; An auditor’s consideration of internal control in a financial statement audit is more limited than that of a practitioner engaged to examine management assertion about the effectiveness of the entity’s internal control.

Compliance; Statement SSAE #3 provides guidance for engagements related to management written assertion either (a) entity’s compliance with requirements, specific laws, regulations, rules, contracts or grants or (b) the effectiveness of an entity’s internal control over compliance with specific requirements.

Compliance relating to laws, regulations, rules, contracts, and grants would certainly be capable of evaluation against reasonable criteria and is capable of reasonably consistent estimation or measurement.

Since nothing has come to the attention of this Committee as contrary or adverse to this document, they agree to the amendments as written to the proposed statement on standards for attestation engagements. SSAE #1 Attestation Standards (general); SSAE #2 Reporting on an Entity’s Internal Control over Financial Reporting; SSAE #3 Compliance.

Very truly yours,

Anne M. Solitro
Executive Assistant

Three Executive Park Drive

Bedford, NH 03110-6923

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E-mail: info@nhscpa.org

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August 5, 1998

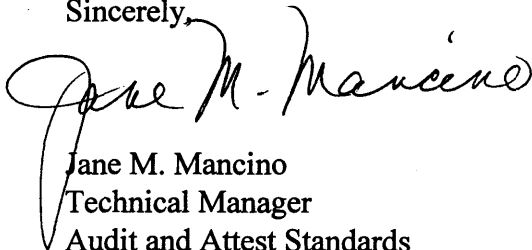
File Ref. Nos. 1120
2155

To the Auditing Standards Board:

Here are the comment letters received to date on the exposure draft of the proposed Statement on Standards for Attestation Engagements (SSAE), *Amendments to SSAE Nos. 1, 2 and 3*.

<u>Name/Affiliation</u>	<u>Location</u>
8. James A. Dolinar Illinois CPA Society	Chicago, IL
9. Albert E. Roevens, Jr., CPA Louisiana Society of Certified Public Accountants	Kenner, LA
10. Deloitte & Touche LLP	Wilton, CT
11. James A. Koepke, Chair PCPS Executive and Technical Issues Committees	Troy, MI
12. Grant Thonton LLP	New York, NY
13. James E. Brown, CPA	Springfield, MO

Sincerely,


Jane M. Mancino
Technical Manager
Audit and Attest Standards

Enclosure



8

July 27, 1998

Ms. Jane M. Mancino, Technical Manager
Audit and Attest Standards, File 2155
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Mancino:

The Committee on Auditing Services of the Illinois CPA Society ("Committee") is pleased to have the opportunity to comment on the exposure draft of the "Proposed Statement on Standards For Attestation Engagements, Amendments to Statement on Standards For Attestation Engagements No. 1, *Attestation Standards*, Statement on Standards For Attestation Engagements No. 2, *Reporting on an Entity's Internal Control Over Financial Reporting*, and Statement on Standards For Attestation Engagements No. 3, *Compliance Attestation*. The following comments and considerations represent the collective views of the members of the Committee. The organization and operating procedures of the Committee are reflected in the Appendix to this letter.

SUMMARY

We are in general support of the issuance of the proposed statement, with suggested considerations.

SPECIFIC CONSIDERATIONS

SSAE No. 1, Point 47 discusses the standards of reporting for an attest engagement. For consistency within the proposed amendment, consider deleting the word "generally" in the last sentence of Point 47. The last sentence may be rewritten as "If there is a separate presentation of the assertion, the presentation of the assertion should be bound with or accompany the practitioner's report."

SSAE No. 1, Point 50 discusses reporting standards and special considerations. The proposed amendment indicates that instead of reporting on management's assertion, the practitioner may now directly report on the practitioner's conclusion on the subject matter of the assertion. Footnote 9 of Point 50 offers an example to clarify this distinction. Perhaps additional discussion and/or examples could highlight the true significance and clearly distinguish the practitioner's role of "asserter" vs. "attester" so that no wrongful inferences may be made.

SSAE No. 1, Point 55, letter h, indicates that the practitioner's report should contain a statement of limitations on the use of the report when the assertion has been prepared in conformity with specified criteria agreed to by the asserter and the specified parties. This statement should indicate

2 2
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TEL: 312-993-0407 or
800-993-0407 (Illinois only)

SPECIFIC CONSIDERATIONS

that the report is intended solely for specified parties. However, the illustrative examination report presented in Point 57 does not include such wording. Perhaps a sample restriction paragraph, or a parenthetical "reminder-type" paragraph similar to the illustrative report's 3rd paragraph, can be included in the illustrative report. The above consideration may also be applied to proposed amendments to SSAE No. 1, Points 59 and 60, SSAE No. 2, Points 43, 44 and 45, and SSAE No. 3, Points 51 and 52. It may be beneficial to the practitioner to have complete illustrative wording to review, or at least "reminder-type" wording to consider, to assure that all elements will be included in the practitioner's report.

The first paragraph of the illustrative examination report presented in SSAE No. 2, Point 44, states "Management has represented to us ..." However, the reporting standards presented in Point 43, letter c, simply indicates that the practitioner's report contain a statement that the assertion is the responsibility of management. Further, in Point 54 of SSAE No. 3 on page 83, the proposed change in wording is to delete the phrase management "represented to us that it"..... We believe it is not necessary and inconsistent to state the phrase "management represented to us that" and recommend changing the wording to comply with the requirements in Point 43 and in the other proposed examples.

GENERAL CONSIDERATIONS

The exposure draft would eliminate the requirement for a separate presentation of management's assertion in certain cases where the assertion is included in the introductory paragraph of the practitioner's report. The proposed amendments indicate that the form of the practitioner's report will depend on whether management's assertion is presented separately and accompanies the practitioner's report, or whether management's assertion is only stated in the practitioner's report. There are 15 identical parenthetical notations in the exposure draft regarding the disclosure of management's assertion in the practitioner's report if it does not accompany the practitioner's report. Perhaps an alternative presentation can be considered, i.e. simply assume and note management's assertion will accompany the practitioner's report.

There are also repetitive footnotes throughout the proposed amendments to SSAE No. 2 and No. 3. Perhaps one stated assumption with one accompanying explanatory footnote could be considered.

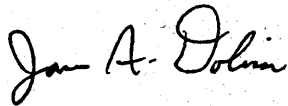
As long as SSAE No. 1 is open for amendment, perhaps this would also be an excellent time to further define "examination" and "review" levels of service and their related procedural differences. Additional practical guidance, incorporated directly into the amended Statements at

Ms. Jane M. Mancino, Technical Manager
July 27, 1998
Page 3

GENERAL CONSIDERATIONS

this time, could be very helpful. As the exposure draft summary indicates, the demand for attest engagement services is expected to continue to grow, further indicating many new practitioners will now begin performing such services. Given the exposure draft comment deadline date is July 31, 1998, perhaps extending the implementation date beyond the proposed January 15, 1999 date may also be helpful.

Sincerely,



James A. Dolinar
Chair, Auditing Services Committee, Illinois CPA Society

ILLINOIS CPA SOCIETY
AUDITING SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
1998 - 1999

The Auditing Services Committee of the Illinois CPA Society (Committee) is composed of 20 technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 15 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of auditing standards.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of auditing and attest standards. The Subcommittee ordinarily develops a proposed response which is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

#9

July 28, 1998

Jane M. Mancino
Technical Manager
Audit and Attest Standards
File 2155
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

VIA INTERNET: JMANCINO@AICPA.ORG

REPOSENSE TO:

**EXPOSURE DRAFT - PROPOSED STATEMENT ON STANDARDS FOR
ATTESTATION ENGAGEMENTS**

STATEMENT ON STANDARDS FOR
ATTESTATION ENGAGEMENTS NO. 1,
ATTESTATION STANDARDS

STATEMENT ON STANDARDS FOR
ATTESTATION ENGAGEMENTS NO. 2,
*REPORTING ON AN ENTITY'S INTERNAL
CONTROL OVER FINANCIAL REPORTING*

STATEMENT ON STANDARDS FOR ATTESTATION
ENGAGEMENTS NO. 3,
COMPLIANCE ATTESTATION

DATE OF EXPOSURE DRAFT: JULY 1, 1998

DATE COMMENT SHOULD BE SENT: JULY 31, 1998

COMMENT SUBMITTED BY: LOUISIANA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS - AUDITING AND ACCOUNTING STANDARDS COMMITTEE

Vance R. Bailes, CPA, CVA
Keith Besson, CPA
Judson J. McCann, Jr., CPA
Brent A. Silva, CPA

Response prepared by: Albert E. Roevens, Jr., CPA

General Comments

All of the members responding agree with the amendments to the standards as proposed in this exposure draft. Some of the comments from the responding members are listed below:

- * The amendments properly meet the needs of the public.
- * These amendments enhance the understanding of the standards.
- * These standards will make it more cost effective for practitioners to provide assurance on a specific matter.
- * Enabling the practitioners to report directly on specified subject matter will enhance the understanding and cost effectiveness of many engagements.
- * The exposure draft updates the language of the reports to be issued to conform with the current audit report.
- * This exposure draft gives the practitioner more flexibility on specific engagements.

Specific Comments

Page 11, Paragraph 2 – Are litigation service engagements exempt from this standard. If so, more explanation would be helpful, similar to the explanation in SSARS 1.

Page 20, Paragraph 53- Should a line be inserted before **Examination** below the paragraph?

Response to Exposure Draft

Page 3

Page 45, Paragraph 44 – The first sentence states “...an opinion directly on ...”; we question why use the word directly. Also, in the introduction paragraph of the Independent Accountant’s Report we suggest that “...represented to us that it is responsible...” be changed to “...represented to us their responsibility...”. This same language also appears in several other locations in the exposure draft.

Page 62, Paragraph 69 – In the opinion paragraph, the last sentence states “... by agency _____ ...”; should it read by _____ agency consistent with other paragraphs?

Page 77, Paragraph 36 f. – The comma after complied should be removed, and possibly placed after fairly stated).

Page 81, Paragraph 51 b – Bold sentence needs proper left-hand margin.

**Deloitte &
Touche LLP**

Ten Westport Road
P.O. Box 820
Wilton, Connecticut 06897-0820

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July 31, 1998

Ms. Jane M. Mancino
Technical Manager
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 2155

Dear Ms. Mancino:

We are pleased to comment on the Proposed Statement on Standards for Attestation Engagements, *Amendments to Statement on Standards for Attestation Engagements No. 1, "Attestation Standards," Statement on Standards for Attestation Engagements No. 2, "Reporting on an Entity's Internal Control Over Financial Reporting," and Statement on Standards for Attestation Engagements No. 3, "Compliance Attestation."*

We support amending existing standards to enable practitioners to report directly on a specified subject matter, such as internal control over financial reporting, rather than on management's assertion, and believe that the proposed amendments should help improve the understandability of the conclusions communicated by the practitioner in an attest engagement. However, we do have some other recommendations for clarifying the proposed amendments, as described in the attachment to this letter. The attachment also contains several editorial comments for your consideration.

Please contact John Fogarty at (203) 761-3227 if you wish to discuss our comments.

Sincerely,

Deloitte & Touche LLP

OTHER COMMENTS

Proposed Amendment to Statement on Standards for Attestation Engagements No. 1

Paragraph 47

We believe the last sentence of paragraph 47 is too vague. Such sentence states: "If there is a separate presentation of the assertion, the presentation of the assertion **should generally** be bound with or accompany the practitioner's report." [Emphasis added]

We recommend that paragraph 47 be expanded to articulate under what circumstances the presentation of the assertion should be bound with or accompany the practitioner's report and when it would not be necessary. We believe that inclusion of such a discussion would provide the practitioner with guidance to more aptly deal with each reporting situation.

Paragraphs 59 - 60

We believe that the practitioner's report on a review should include a description of the procedures for a review engagement, similar to paragraph 27e of SAS No. 71. Accordingly, we recommend that the following bullet point be added to paragraph 59: "**A description of the procedures for a review engagement.**" Additionally, as review engagements are only permitted when the assertion relates to financial data, language such as the following could be included in the illustrated review report in paragraph 60: "**A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial [and accounting] matters underlying the assertion.**"

Paragraph 64

We believe that a disclaimer of opinion would be inappropriate in the event of restrictions on the scope of a review engagement. Accordingly, we believe that when restrictions that significantly limit the scope of the engagement are imposed by the client, and the practitioner is performing a review, the practitioner should withdraw from the engagement.

Proposed Amendment to Statement on Standards for Attestation Engagements No. 2

Paragraphs 44 - 45, 49 - 50, 58 - 59, 64, 66 and 69

We believe that the second sentence of the introductory paragraph of the Independent Accountant's Report in paragraphs 44 - 45, 49 - 50, 58 - 59, 64, 66 and 69 are inconsistent with paragraph 43c. We believe that the practitioner's report should state directly that management is responsible for maintaining effective internal control, rather than a statement that management

has represented to the practitioner that they are responsible. Accordingly, we recommend that the second sentence of the introductory paragraph of each of the report illustrations be amended as follow: "Management ~~has represented to us that it~~ is responsible for maintaining effective internal control over financial reporting in conformity with [identify stated or established criteria]."

Paragraph 52

We believe that the opinion paragraph of the Independent Accountant's Report in paragraph 52 is inconsistent with paragraph 47, which states, in part, "If the examination discloses conditions that, individually or in combination, result in one or more material weaknesses, the practitioner should modify the report **and, to most effectively communicate with the reader of the report, should express his or her opinion directly on the effectiveness of internal control, not on management's assertion** [emphasis added]." Accordingly, we recommend that the opinion paragraph of the Independent Accountant's Report be amended as follows:

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, *W Company did not maintain effective internal control over financial reporting as of December 31, 19XX.* ~~management's assertion [identify management's assertion, for example, that W Company maintained effective internal control over financial reporting as of December 31, 19XX] is not fairly stated based upon [identify established or stated criteria].~~

Paragraph 60

It is unclear whether the principal practitioner can opine directly on the specified subject matter when the report of other accountants opines on management's assertion, and vice-versa. Accordingly, we recommend that a footnote be added to paragraph 60 to articulate whether the nature of the other accountant's opinion (i.e., whether it is expressed on management's assertion or directly on the subject matter) has an effect on whether the principal practitioner opines on management's assertion or the subject matter when such opinion is based in part on the report of the other accountants. We believe that inclusion of such a footnote would provide the practitioner with guidance to deal with the situation when it arises.

Proposed Amendment to Statement on Standards for Attestation Engagements No. 3

Paragraph 52

We believe the last sentence of paragraph 52 should either be deleted or be revised to read as follows:

The opinion paragraph should report on **either management's assertion** or the entity's compliance with specified requirements.

Paragraph 66

Paragraph 66 provides reporting guidance when there is a material uncertainty concerning compliance, and includes consideration of the need for a qualified or adverse opinion.

Although SSAE No. 3 originally contained a discussion of the need for a qualified or an adverse opinion, such modification related to situations in which management did not include a description of a material uncertainty in their assertion and, accordingly, the practitioner was qualifying his or her opinion relative to whether management's assertion was fairly stated.

With the introduction of opining directly on compliance in the proposed amendment to SSAE No. 3, we do not believe that the practitioner should be provided alternatives to express a qualified or an adverse opinion because of a material uncertainty with respect to compliance with specified requirements. We believe that if the outcome of future events that may have a material effect on the determination of compliance during a previous period is not susceptible to reasonable estimation by management, and it cannot be determined whether an entity complied with such specified requirements, only a disclaimer of opinion should be issued.

It is inconsistent to say that it cannot be determined whether the entity complied with specified requirements and then express an adverse opinion, such as the following: "In our opinion, because of the material uncertainty regarding [describe matter], Z Company has not complied with the aforementioned requirements for the period ended [date]." It would also be inconsistent to say that it cannot be determined whether the entity complied and then form a qualified opinion. Further, confusion would be created as to whether the qualification means that the entity did not comply with that particular compliance requirement or whether the practitioner is "carving out" that particular compliance requirement from the practitioner's opinion.

EDITORIAL COMMENTS

Proposed Amendment to Statement on Standards for Attestation Engagements No. 1

Paragraph 53

We recommend that the first sentence of paragraph 53 be amended as follows to be consistent with the proposed revision to paragraph 54: “In an engagement to achieve the highest level of assurance (an “examination”), the practitioner’s conclusion should be expressed in the form of ~~an~~ **positive** opinion.”

Paragraph 55

We recommend that paragraph 55g be revised to read “~~An~~ **The practitioner’s** opinion on whether”

Paragraph 56

We recommend that the last sentence of paragraph 56 be amended as follows to add clarity: “They also provide examples of reports **that express an opinion** on management’s assertion and of reports **that express an opinion** on the subject matter of management’s assertion.

Paragraph 65

We recommend that the terminology of the last sentence of paragraph 65 be amended as follows, “They can result in either a qualified or an adverse **opinion report**,”

Proposed Amendment to Statement on Standards for Attestation Engagements No. 2

Paragraph 5

As the guidance regarding agreed-upon procedures in SSAE No. 1 was superseded by SSAE No. 4, we believe that the reference to SSAE No. 1 in paragraph 5 should be changed to SSAE No. 4.

Paragraphs 49 and 50

The last sentence of the introductory paragraph of the reports illustrated in paragraphs 49 and 50 should read as follows: "Our responsibility is to express an opinion of the effectiveness of internal control **based on our examination.**"

Paragraph 56

To improve readability of the report, we believe that the explanatory paragraph concerning the scope limitation should immediately follow the scope paragraph in the Independent Accountant's Report and precede the inherent limitations paragraph.

Paragraph 69

We recommend that the first sentence of the introductory paragraph of the Independent Accountant's Report in paragraph 69 be amended as follows: "We have examined management's assertion **included in the accompanying [title of management report] . . .**"

Proposed Amendment to Statement on Standards for Attestation Engagements No. 3

Paragraph 50

We recommend that paragraph 50 be amended as follows to add clarity, "In evaluating whether the entity has complied, in all material respects, [or **whether** management's assertion ..."

Paragraph 51

We recommend that the first sentence in paragraph 51 be amended as follows to add clarity, "The practitioner's report **on an examination**, which is ordinarily addressed to the entity, should include - "

We recommend that paragraph 51h be amended as follows, "The practitioner's opinion on whether the entity complied in all material respects, with specified requirements [or **whether** management's assertion about compliance with specified requirements is fairly stated, in all material respects] based on established or agreed-upon criteria." To add clarity, we also recommend that the reference to paragraph 58 include a description of the topic to which practitioners are being directed.



July 31, 1998

Ms. Jane Mancino, Technical Manager
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036

Re: Exposure Draft: Proposed Statement on Standards for Attestation Engagements, "Amendments to Statement on Standards for Attestation Engagements No. 1, *Attestation Standards*, Statement on Standards for Attestation Engagements No. 2, *Reporting on an Entity's Internal Control Over Financial Reporting*, and Statement on Standards for Attestation Engagements No. 3, *Compliance Attestation*"

Dear Ms. Mancino:

One of the objectives that the Council of the American Institute of CPAs established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective.

TIC commends the Auditing Standards Board for allowing direct reporting and for proposing the other changes embodied in the above referenced exposure draft. The members of TIC believe that these changes improve the understandability of the conclusions communicated by a practitioner in an attest engagement and is a good first step in improving the overall utility of the Statements on Standards for Attestation Engagements ("SSAEs").

TIC members recognize that the Attestation Recodification Task Force ("Task Force") has also undertaken additional projects to improve the understandability and utility of the SSAEs. In this regard, TIC members would like to offer the Task Force their assistance in achieving these important objectives. If there is any way that TIC members can assist the Task Force in these projects, please do not hesitate to contact Luis Cabrera, TIC Staff Liaison, so he can coordinate this effort.

Sincerely,

A handwritten signature in black ink, appearing to read "James A. Koepke".

James A. Koepke, Chair
PCPS Technical Issues Committee

JAK:lec

cc: PCPS Executive and Technical Issues Committees

605 Third Avenue
New York, NY 10158-0142
212 599-0100
FAX 212 557-2764

#12

July 30, 1998

Ms. Jane Mancino
Technical Manager
Audit and Attest Standards
File 2155
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Grant Thornton 
GRANT THORNTON LLP Accountants and
Management Consultants
The U.S. Member Firm of
Grant Thornton International

Dear Ms. Mancino:

We appreciate the opportunity to comment on the proposed Statement on Standards for Attestation Engagements (SSAE), entitled *Amendments to SSAE 1, Attestation Standards, SSAE 2, Reporting on an Entity's Internal Control Over Financial Reporting, and SSAE 3, Compliance Attestation*.

We support the issuance of the proposed SSAE by the AICPA Auditing Standards Board because, among other reasons, we believe that the ability to report on the subject matter of an assertion is more understandable to users. We encourage the Board to continue in its efforts to increase the utility of the SSAEs by addressing inconsistencies and improving the understandability of the communications by practitioners. For example, we are concerned with the inconsistency between the second standard of reporting and the reporting requirements of SSAE 4, *Agreed-Upon Procedures Engagements*, especially in light of the fact that the second standard would, as revised, require a practitioner to conclude on the "reliability of the assertion...". We are confident that these items will be addressed in the Board's ongoing projects in this area.

If you should have any questions on any of the matters discussed in this letter please contact Mr. John L. Archambault at (312) 565-4731.

Sincerely,



Grant Thornton LLP

P. O. Box 1190
Springfield, Missouri 65801-1190
July 31, 1998

Jane M. Mancino CPA, Technical Manager
Audit and Attest Standards
File 2155
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Jane:

It is a pleasure to submit this letter detailing my comments on the Auditing Standards Board's June 1, 1998 Exposure Draft of the Proposed Statement on Standards for Attestation Engagements, *Amendments to Statement on Standards for Attestation Engagements No. 1, Attestation Standards; Statement on Standards for Attestation Engagements No. 2, Reporting on an Entity's Internal Control Over Financial Reporting; and Statement on Standards for Attestation Engagements No. 3, Compliance Attestation*. As a former member of the Auditing Standards Board who voted on and/or participated in the development of the majority of the existing SSAEs, I have a keen interest in the Exposure Draft (ED). I believe the attestation standards are the framework for the flourishing of assurance services in the future and am pleased to see the extensive efforts the Board is taking to enhance and strengthen them.

I am strongly in support of the thrust of the proposal in the ED to permit direct reporting on the subject matter of the assertion instead of just permitting reporting on the fairness of statement of the assertion. My dissent to SSAE 3 was based primarily on my strongly-held feeling that direct reporting was less likely to be misunderstood, best served the public interest and avoided the rather convoluted reporting that results when management's written assertion reports a material departure from the established or stated criteria. I applaud the Board and the Task Force for revisiting this issue and support the conclusion in the ED for the same reasons that I dissented from SSAE 3. I believe the experience of asserters, users and practitioners with SSAE 2 and SSAE 3 has borne out my previous concerns and that the ED will alleviate those concerns.

I have some comments and suggestions for consideration by the Board and the Task Force that I believe will help improve the understandability and utility of the proposed standard. These matters are discussed in the remainder of this letter in paragraph number, versus degree of importance, order.

1. SSAE 1, Paragraph 17—The words "the presentation of" should be deleted from the last sentence to be consistent with the change made in the language of third general standard.

2. SSAE 1, Paragraph 24—Since certain SSAEs (for example, SSAE 2 and SSAE 3) permit an examination level service but prohibit a review level service, consider adding a footnote to Paragraph 24 to enhance reader understanding by providing a reference to the circumstances where the review service is proscribed.

Also, since SSAE 4 permits an agreed-upon procedures engagement when the subject matter to which the procedures are to be applied satisfies the second condition even though the assertion may not, consider adding a footnote for enhanced reader understanding containing a reference to this concept in SSAE 4.

3. SSAE 1, Paragraph 42—The last sentence of Paragraph 42 seems to permit a practitioner to limit attestation risk to an acceptably low level solely by performing procedures to assess inherent and/or control risk. This is clearly inconsistent with the audit risk and attestation risk models as I understand them in that assessment of inherent and internal control risk and performance of tests of controls do not, by themselves, provide a sufficient basis for expression of an opinion. I urge the Board to review this matter and clarify that performance of some degree of substantive procedures will always be necessary to reduce detection risk, therefore attestation risk, to an acceptably low level to permit the expression of an opinion. If this change is not made, the requirements to perform substantive procedures contained in other SSAEs should be deleted to achieve consistency.
4. SSAE 1, Paragraph 44—It is unclear whether this Paragraph applies to just the review level of service. Its guidance could be applied to an examination as well. I suggest clarifying to which service or services the Paragraph applies by explicit identification in its text.
5. SSAE 1, Paragraph 47—The last sentence added to this paragraph seems to be inconsistent with the concept that an assertion can be presented in a letter of representation to the practitioner. Technically, the letter of representation could be considered a separate presentation of the assertion. Surely, the Board did not intend to revise the existing guidance on reporting when the assertion is only in the letter of representation to require that letter to be bound with or accompany the practitioner's report. I suggest clarifying the new provision by indicating that the letter of representation is not a separate presentation of the assertion for this purpose and should generally *not* be bound with or accompany the practitioner's report. Instead, as indicated in SSAE 1, Paragraph 55 of the ED, the assertion would be stated in the first paragraph of the practitioner's report.
6. SSAE 1, Paragraph 48—While technically correct, the use of audited financial statements as an example troubles me. Since generally accepted auditing standards (rather than the attestation standards) govern financial statement audits, the example given causes unnecessary confusion. Consider using the examination of prospective financial statements as described in AT 200 for this purpose.

7. SSAE 1, Paragraph 50 and Footnote 9—Ideally, the ED should require reporting on the subject matter and prohibit reporting on the assertion. I urge the Board to consider taking this bold step. However, I understand that this may not yet be acceptable to a majority of the Board in all circumstances due to legal, business and other risks of the practitioner in attestation engagements. If the Board feels it must retain the reporting option, I suggest that the wording of Footnote 9 be revised to eliminate the apparent inconsistency between it and the last sentence of Paragraph 50. This would be accomplished by inserting the word “ordinarily” between the words “should” and “state” in Footnote 9.
8. SSAE 1, Paragraph 54—A key concept currently in the auditing standards seems to be missing from this paragraph. Namely, the concept of the assertion or subject matter presented *taken as a whole* is omitted. I suggest including this concept as its omission may erroneously result in imputing assurance on each item in the assertion or subject matter individually.
9. SSAE 1, Paragraph 55—Item h. (2) is somewhat troubling. I realize this language is carried forward from old paragraph 55, but believe it is erroneous. Is it necessary for the practitioner to determine what the assertion would be if intended for general distribution; or is it sufficient to just determine that the assertion presented would not be appropriate for general distribution reporting. Also, on what basis or criteria would the determination of materially different be made, especially if the practitioner need not determine what the assertion would be? I suggest revising the requirement to be a statement, where applicable, that the assertion differs from an assertion that would be appropriate for a general distribution report. I also believe that the correct concept would be general use instead of general distribution given the Board’s recent SAS ED on restricted use reporting.
10. SSAE 1, Paragraph 59—The comment made in 9. above also applies to item g. (2) in this paragraph.
11. SSAE 2, Footnote 17—The concept in the footnote should probably be general or restricted use instead of distribution.
12. SSAE 2, Footnote 30—This footnote may need to be retained depending on the outcome of the Board’s recent SAS ED on restricted use reporting.
13. SSAE 2, Paragraph 47—The language regarding reported when there is at least one material weakness is inconsistent with Paragraph 50 of SSAE 1. To be consistent, Paragraph 47 should be revised to place the word “generally” between the words “should” and “express”. This likely will also require revision of the wording in SSAE 2, Paragraphs 49, 50, 52, 57 and 60.
14. SSAE 3, Various Paragraphs—Comments similar to those in items 11, 12 and 13 above also apply to SSAE 3.

Jane M. Mancino CPA

July 31, 1998

Page 4

15. SSAE 1, 2 and 3—Tying the effective date of the amendments to reports issued on or after January 15, 1999, seems ill advised. Certain of the changes proposed having performance implications. I suggest the effective date be changed to engagements for which fieldwork commences on or after the specified date.

16. There is one concept in the auditing literature that is not present in the attestation standards that continues to trouble me greatly. The concept of reasonable assurance is protective to all parties in an assurance engagement. However, it is conspicuous by its absence from the attestation standards. I am afraid that its absence, when contrasted with other assurance standards such as generally accepted auditing standards, could be interpreted as meaning the assurance given in an examination is absolute rather than reasonable. I urge the Board and Task Force to revise the attestation standards to include the concept of reasonable assurance expeditiously as part of any final standard that may result from this ED.

These comments represent my individual views and are not an official statement of the firm of Baird, Kurtz & Dobson (BKD), which has authorized me to submit this comment letter on my own behalf. It is my understanding that BKD is not submitting its own comment letter, nor has it authorized any of its partners other than myself to submit a comment letter individually.


I appreciate the opportunity to comment on the ED. Please contact me if you have questions about or need further clarification regarding any matter in this letter or if I may be of assistance in any other manner. I may be contacted by telephone at (417) 865-8701.

Sincerely yours,



James E. Brown CPA

ASB Cannon Letters

DATE: September 1, 1998
TO: Pat Meyer
FROM: Sherry Boothe 
SUBJECT: Comment Letters

Attached are comment letters #'s 14, 15 and 16 for the Exposure Draft Proposed Statement on Standards for Attestation Engagements, Amendments to Statement on Standards for Attestation Engagements Numbers 1, 2, and 3.

#14



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

HARVEY C. ECKERT
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS
OFFICE OF THE BUDGET

August 4, 1998

Jane M. Mancino
Technical Manager
Audit and Attest Standards, File 2155
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Mancino:

We have reviewed the Exposure Draft Proposed Statement on Standards for Attestation Engagements, Amendments to Statement on Standards for Attestation Engagements Numbers 1, 2, and 3. We have no objections to the proposed changes.

If you have any questions, please call Herbert A. Maguire, CPA, Director of the Bureau of Audits, at 717-783-0114.

Sincerely,

A handwritten signature in black ink, appearing to read "Harvey C. Eckert".

Harvey C. Eckert

cc: Herbert A. Maguire



FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
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17 July 1998

Ms. Jane M. Mancino
Technical Manager
Audit and Attest Standards
American Institute of CPAs
1211 Avenue of the Americas
New York, New York 10036-8775

RE: File 2155

Proposed SSAE - Amendments to SSAE No. 1, SSAE No. 2 and SSAE No. 3

Dear Ms. Mancino:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of CPAs, (the Committee), has reviewed and discussed the Proposed SSAE - Amendments to SSAE No. 1, SSAE No. 2 and SSAE No. 3 dated June 1, 1998. A summary of our comments follows.

GENERAL COMMENTS

The Committee believed that the proposed amendments generally were helpful and clear, although not generally technical in nature.

SPECIFIC COMMENTS

The Committee believes that certain technical points ought to be raised since a proposal to amend said SSAE's exist. The Committee's thoughts are:

A) Paragraph 58, page 23 - The Committee believes that language to clarify that a review can be performed except when precluded by SSAE No. 2. This could assist in reducing potential confusion between SSAE No. 1 and SSAE No. 2 for practitioners.

B) Paragraphs 48 to 51, pages 48 to 51 - The majority of the Committee was not comfortable with issuing a modified opinion with an "except for" modification for a material weakness. The majority feels that since "except for" opinions are no longer allowed under GAAS, the SSAE's should be modified to conform with GAAS. The majority felt that an "except for" modification for a material weakness potentially constitutes an oxymoron. A material weakness generally precludes a belief of effective control.

Ms. Jane M. Mancino

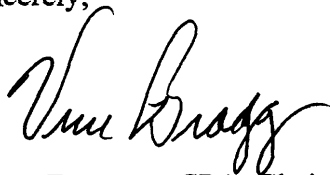
Page 2

17 July 1998

C) Paragraphs 58 through 60, pages 85 and 86 - The comments regarding the "except for" modification discussed above also apply to a material noncompliance modified opinion.

As always, the Committee appreciates the opportunity to share our views and concerns and to comment on the Proposed SSAE amendments. Members of our Committee are available to discuss any questions you may have about this communication.

Sincerely,

A handwritten signature in cursive script, appearing to read "Verne Bragg".

Verne E. Bragg, CPA, Chairman

FICPA Accounting Principles and Auditing Standards Committee

PO Box 5437

Tallahassee, FL 32314

Task Force coordinating this response:

Stephen H. Durland, CPA

Joy L. Gibson, CPA



#16

July 31, 1998

Jane M. Mancino, Technical Manager
Audit and Attest Standards, File 2155
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement on Standards For Attestation Engagements: *Amendments to SSAE1, SSAE2 and SSAE3*, (the Proposal).

Dear Jane:

The Accounting Principles and Auditing Procedures Committee is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committee consists of over thirty members who are affiliated with public accounting firms of various sizes, from sole proprietorships to international "big six" firms, as well as members in both industry and academia. The Committee has reviewed and discussed the above referenced Proposed Statement on Standards For Attestation Engagements. The views expressed in this comment letter are solely those of the Committee and do not reflect the views of the organizations with which the Committee members are affiliated.

Although some members of the Committee expressed concern that some practitioners may feel compelled to perform additional procedures before reporting directly on a conclusion (rather than on management's assertion), the Committee does not have any further comments on the Proposal.

We appreciate the opportunity to present our comments and thank you for your consideration.

Very truly yours,

Jeffrey D. Solomon, CPA, Chairman
Accounting Principles and Auditing Procedures Committee
Massachusetts Society of Certified Public Accountants

Comment Letters

DATE: September 2, 1998

TO: Pat Meyer

FROM: Sherry Boothe *SB*

SUBJECT: Comment Letters

Attached is comment letter #17 for the Exposure Draft Proposed **Statement on Standards for Attestation Engagements, Amendments to Statement on Standards for Attestation Engagements Numbers 1, 2, and 3.**

Comment Letter #17

August 24, 1998

Ms. Jane M. Mancino, Technical Manager
Audit and Attest Standards, File 2155
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Proposed Statement on Standards for Attestation Engagements (SSAE)
Amendments to SSAE No. 1, *Attestation Standards*, No. 2, *Reporting on an
Entity's Internal Control Over Financial Reporting*,
and No. 3, *Compliance Attestation*

Dear Ms. Mancino:

Ernst & Young LLP supports the issuance of the above referenced proposal to amend SSAE No. 1, AT Section 100, *Attestation Standards*, SSAE No. 2, AT Section 400, *Reporting on an Entity's Internal Control Over Financial Reporting*, and SSAE No. 3, AT Section 500, *Compliance Attestation*, to enable the practitioner to report directly the conclusion on a specified subject matter, to eliminate the requirement for a separate presentation of management's assertion in certain cases where the assertion is included in the introductory paragraph of the practitioner's report, and to conform the reporting guidance to include reporting elements.

In agreeing with the Auditing Standards Board's decision to permit the practitioner to report directly on the subject matter of the assertion, we note that the proposed statement retains the requirement for a written assertion. We believe that obtaining a written assertion is a critical element of an engagement under the attestation standards.

The appendix to this letter includes certain additional comments for improving the exposure draft.

We would be pleased to discuss our comments with members of the Auditing Standards Board or its staff.

Sincerely,

EY

Attachment

Reference on Exposure Draft	Comment
Page 21, paragraph 55(g)(1)	<p>We believe that in instances where a practitioner's opinion is on management's assertion (as opposed to the subject matter) it should be "based on" rather than "in conformity with" the established or stated criteria. When the practitioner's opinion is on subject matter it should be "based on" or "in conformity with" the established or stated criteria, depending on the circumstances.</p> <p>Our basis for making this distinction is our belief that criteria relate primarily to subject matter. Accordingly, assertions should be based on criteria appropriate for the subject matter.</p> <p>The example reports (e.g., paragraph 22) should be conformed to reflect this change where appropriate.</p>
Page 21, paragraph 55(h)(2)	<p>This item should be revised to more clearly state the effect of the use of specified criteria as the basis for management's assertion rather than established criteria as follows:</p> <p>"When the assertion has been prepared based on in conformity with specified criteria (see paragraph 19) that have been agreed upon by the asserter and the specified parties, the practitioner's report should also contain:</p> <ol style="list-style-type: none"> <li data-bbox="778 1487 1458 1591">(1) A statement of limitations on the use of the report because it is intended solely for specified parties (see the fourth reporting standard). <li data-bbox="778 1632 1458 1844">(2) A statement, when applicable, that the assertion differs materially from that which would have been presented if criteria for such assertion for general distribution had been followed in its presentation an assertion based on criteria for general distribution."

Reference on Exposure Draft	Comment
Page 20, paragraph 51	In the second sentence of the paragraph, the word “established” before the phrase “reliability of the assertion” should be deleted. The introductory phrase of the second sentence should read: “In expressing a conclusion on the established reliability of the assertion based on the established or stated criteria against which it was measured, ...”
Page 46-51, paragraphs 45, 49 and 52	The illustrative reports in these paragraphs refer the practitioner to the standard introductory, scope an inherent limitations paragraphs. However, it is not clear which of the preceding reports should be used as a reference. Therefore, we recommend that the reports in paragraphs 45, 49 and 52 be the full text of the form of report, or alternatively, refer to paragraph 44 as a “standard report.”
Page 51, paragraph 51	The third sentence should be modified to clarify that in instances where we disagree with management’s assertion, our opinion will address management’s assertion rather than the subject matter of the assertion. This point is made in SSAE No. 3 (page 85, paragraph 62, the third sentence) and also should be made here for consistency.
Page 66, Appendix	SOP 98-3, <i>Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards</i> , issued March 17, 1998, superseded SOP 92-9 of the same title. Therefore, the reference to SOP 92-9 in the last bullet of the Appendix should be changed to SOP 98-3.

Reference on Exposure Draft

Comment

Page 85, paragraph 60

We believe the use of the words “the aforementioned requirements” in the introductory paragraph will be confusing in a report dealing with material noncompliance. We suggest revising the suggested wording as follows:

“We have examined management’s assertion, included in the accompanying [title of management report] that, except for the noncompliance with [list requirements] described in the third paragraph, Z Company complied with ~~the aforementioned requirements~~ **[list specified compliance requirements]** for the period ended [date]. Management is responsible for **[name of entity]’s** compliance with those requirements. Our responsibility is to express an opinion on the Company’s compliance based on our examination.”

Practitioners would have to make this change to identify the compliance requirements in the introductory paragraph to allow for the reference to “the aforementioned requirements” in the opinion paragraph.

Also, the explanatory paragraph in paragraph 60 should be revised to read the same as the example explanatory paragraph provided in paragraph 61 which states:

“Our examination disclosed the following material noncompliance with [type of compliance requirement] applicable to [name of entity] during the [period] ended [date]. [Describe noncompliance].”

Page 86, paragraph 61

As described in the comment for paragraph 60 above, the words “the aforementioned requirements” in the first sentence of the introductory paragraph should be replaced with the words “[list specified compliance requirements].”

Reference on Exposure Draft

Comment

Pages 82-87, paragraphs 53-64

The example reports provided in SSAE No. 3 should each contain or make reference to a standard “restricted use” paragraph. There is a general presumption in SSAE No. 3 that such reports ordinarily would contain the restricted use paragraph. Paragraph 51(i) and related footnote 17 describe this general assumption.

Page 88, paragraph 66

Paragraph 66 is not clear as to what the practitioner should do when the assertion includes the material uncertainty and what the practitioner should do when the assertion excludes the material uncertainty. Therefore, we suggest that the last sentence of the paragraph be revised as follows:

“When a material uncertainty exists and it is included in the assertion, the practitioner should:

- report directly on the entity’s compliance.
- include an explanatory paragraph in his or her report either describing the uncertainty or referring to the description of the uncertainty in management’s assertion.
- When a material uncertainty exists and it is not included in management’s assertion, the practitioner should:
 - report directly on the entity’s compliance.
 - include an explanatory paragraph in his or her report describing the uncertainty.
 - consider the need for a qualified (meaning, except for the specified requirement to which the uncertainty relates), an adverse (meaning, because of the material uncertainty the entity has not complied with the specified requirement), or a disclaimer of opinion.”