

University of Mississippi

eGrove

Statements of Position

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1999

Comment letters on Proposed Statement on Standards For Accounting and Review Services Amendment to Statement on Standards for Accounting And Review Services 1, Compilation and Review of Financial Statements

American Institute of Certified Public Accountants. Accounting and Review Services Committee

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sop



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Accounting and Review Services Committee, "Comment letters on Proposed Statement on Standards For Accounting and Review Services Amendment to Statement on Standards for Accounting And Review Services 1, Compilation and Review of Financial Statements" (1999). *Statements of Position*. 716.

https://egrove.olemiss.edu/aicpa_sop/716

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

Exposure Draft
Proposed Statement on Standards
For Accounting and Review Services
Amendment to
Statement on Standards for Accounting
And Review Services 1,
Compilation and Review of Financial Statements
Comment Letters

COMMENT LETTER #1

The amendment appears to be vague as to whether or not "restricted" financial statements must adhere to either GAAP or OCBOA. Can the financial statements be in any format as desired by management of the client company or must they be IAW GAAP or OCBOA? If the latter is required, then what has anyone gained? If the former is o.k., then it appears that we will have two sets of reporting standards-little GAAP and big GAAP.

Damon B. Notestone, CPA
Notestone CPA Firm
117 W. Main Street
Suite 204
Lancaster, OH 43130

COMMENT LETTER #2

MOVED TO BUSINESS VALUATION COMMENT LETTERS

COMMENT LETTER #3

I disagree with the provisions of the exposure draft that allows the CPA firm to issue a compiled financial statement to the client without a compilation report attached when the report is not expected to be used by a third party (paragraphs 21-23). I feel this is a step backward and we will find these stnmts. in bank loan files and used by other third parties. If a letter has to be issued with the report to management under paragraph 21 anyway, I think the public would be better served by having the standard compilation report attached. We are kidding ourselves if we feel that these reports restricted for management's use will not end up in public hands. As a member of a state society peer review committee we still find significant problems with the quality of compiled financial statements and to now allow a further deterioration of the standards in this areas is not advisable. I strongly disagree with amending SSARS 1 to allow management use only compiled financial statements.

John W. Kee, CPA, PLLC Member
Arnett & Foster, P.L.L.C.
P.O. Box 2629
Charleston, West Virginia 25329

COMMENT LETTER #4

David Haffey, CPA
122 S. Main #360
Ann Arbor, MI 48104-1925

The proposed amendment is totally unclear on the definition of "submission of financial statements".

If a client sends me a data file, and I post numerous adjusting journal entries and send the updated file back to them, have I "submitted financial statements"?

Suppose the client is a bit more sophisticated, and I need only post one adjustment, or even NONE, and I send the file back to them, have I "submitted financial statements"?

Suppose this same file includes adjustments I made at the end of each of the previous three years, so that beginning balances have been directly affected by my work, but I done no work on the current year portion of the transaction database, have I "submitted financial statements"?

I believe the AICPA is on entirely the wrong track with this proposal. I believe that if a CPA's name appears no where in association with the financial statements, then the statements should be treated as prepared internally, by management, and no CPA reporting standards or engagement letter requirement should apply.

COMMENT LETTER #5

I must be reading this wrong. For a regular compilation, I need to issue a compilation report. For statements not expected to be used by a third party, I would expect my work, and the client's costs to be lessened, but per paragraph 21, I not only have to issue a compilation report, I have to obtain an engagement letter and I have to issue a letter to management--which I'm not at all clear on as to how it differs from an engagement letter.

What this amendment should provide is that if I obtain an engagement letter stating that the financial statements are not to be used by a third party, and that the CPA's name will nowhere appear in association with said statements, then **NOTHING ELSE IS NEEDED!** Not an accountant's report, not any reference at the bottom of each page, no footnotes, nothing.

David Haffey, CPA
122 S. Main #360
Ann Arbor, MI 48104-1925

COMMENT LETTER #6

Allowing financial statements, without requiring an accountants report, I do not see how that can help the profession. CPA's have one thing other profession's don't and that is they are certified. To allow our main product to be sold without that report with the CPA designation on it makes us the same as other accountant's, and thus is a losing proposition from any economic stand point, i.e., it hurts our pocket books, which the AICPA is there to help protect.

Sure, it will simplify matters for some practitioners who can't follow the rules, but existing rules allows those practitioners to issue compilations substantially omitting all disclosures and allow us to use selected notes with the latter engagements. These same practitioners ostensibly find this an undue burden to comply with. What makes anyone think they will comply with the provisions of the new proposal which requires them to comply with all of performance requirements for a compilation and prepare an engagement letter or a similar understanding?

The entire issue of needing such internal use statements is thus a bogus one. We already have the necessary tools to issue such bare bones statements

Howard Siegman, CPA
8909 W. Olympic Blvd. Ste 206
Beverly Hills, CA 90211

COMMENT LETTER #7

I am opposed to the statement because It eliminates the only distinction between CPA's and not CPA's

We have no control over how the statements are used a phrase such as management use only is not enough.

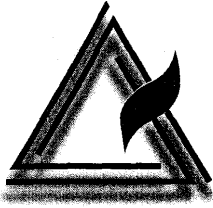
The issuance of the report protects CPA"s because it clearly defines what was not done.

Michael Cummins, CPA
1050205

COMMENT LETTER #8

As a certified public accountant in practice, I believe that this change to SSARS 1 will blur the distinction between CPA's and non certified accountants. with the profession under attack from the American Express type company's in the market place, this change will have certified public accounting firms preparing financial statements down to or possibly below the level of the ABC bookkeeping services. it is sad to see we are coming to this!

John Rofel, CPA Canvasser, Rofel & associates
7071 Orchard Lake Road # 315
West Bloomfield, MI 48322



NOWICKI
AND COMPANY, LLP
Certified Public Accountants

#9

Raymond M. Nowicki, CPA
Partner

Robert J. Glair, CPA
Partner

Thomas M. Dalton, CPA
Manager

Russell J. Arnst, CPA
Manager

Jill M. Gish
Administrator

January 14, 2000

Ms. Sherry Boothe
Audit and Attest Standards - File 2000
American Institute of CPA's
1211 Avenue of the Americas
New York, NY 10036-8775

**Re: Proposed Statement on Standards for Accounting and Review Services
Amendment to SSARS 1, December 31, 1999**

Dear Ms. Boothe:

Having read the exposure draft, I agree with the AICPA's intent to provide a less expensive product for clients to use on a more timely fashion. It is clear in today's world that clients want financial information quickly. They are sometimes willing to accept a financial statement that is less than accurate and are cognizant of where the inaccuracies lie. For example, I have been asked to prepare financial statements for clients that do not adjust the inventory so that they may estimate earnings and inventory on an interim basis. The approach of a compilation does not provide for such a service without the appending of the compilation opinion and making the necessary adjustments to material balances when the financials are clearly in error.

It is clear that clients want to be able to use working statements as tools to communicate with their CPA and their staff on a limited basis. It is also clear that such internal statements are not intended for external use.

My letter appears to promote this exposure draft. It does, except in one instance. The SSARS attempts to go overboard to protect third parties from the use of incomplete statements. I would propose a more practical approach that obviates the need for engagement letters or other attempts at gaining an understanding of the client. The CPA should simply mark each page with a clear legend that cannot be removed from the statements without distorting them.

3198 Union Road / Suite 100
Buffalo, New York 14227
Phone / 716.681.6367
Fax / 716.681.6711
E-mail / nowcpal@aol.com

January 14, 2000
Page 2

A legend that states "PRELIMINARY AND FOR MANAGEMENT USE ONLY" stamped across the face of each page of the financial product rendered would make it relatively useless and unpresentable to a third party who might unwittingly rely on that information. However, it would not render the product as unusable between the client and the CPA.

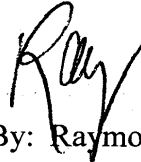
In looking at the broad spectrum of clients within our own firm, I see most of them as being very ethical and willing to accept the terms of an engagement letter or accepting a document of understanding which would limit the use of financial statements prepared on a basis lower than a compilation. However, there is always that 2% in every CPA firm's client base that would ignore their written agreement.

My approach saves the CPA from any embarrassment afforded by an engagement letter that is ignored by the client. Further, adopting my simpler approach reduces paperwork and is a basis for simply explaining the standard to potential third parties such as bankers. Banks should be put on notice that unless financial statements are accompanied by a CPA's report on a compilation, review or audit basis, the third party should be advised that the work product is not that of a CPA firm performing his duties within the confines of professional standards.

I would ask you to consider my approach to the problem as being a preferable alternative to the multiple options in the exposure draft. If you have any further questions or concerns about my response, please feel free to call.

Sincerely yours,

Nowicki and Company, LLP



By: Raymond M. Nowicki, CPA

RMN:jmg
Enclosure

CC: Henry Krostich
William Prue

#10

CHARLES CHAZEN, CPA
9733 Cashio Street
Los Angeles, CA 90035
(310) 553-0058

January 24, 2000

Comments on Proposed Amendment to SSARS 1


Like the words to the old song, down and down we go. When compilation and review were introduced two decades ago, many of us believed that these levels of service were unacceptably low. (J Of A, July, 1983; "Compilation and Review: The Safety Factor"; pages 50-58). Ever since SSARS 1 was issued, the ARSC has tried chipping away at the edges to even lower these standards. Five years ago an attempt was made to introduce the concepts of assembly and internal use. This proposal failed and the current proposal should also fail.

What is the intent of this proposed lowering of the standards? The SSARS 1 performance requirements (par. 8-11) are intended to remain intact. Only the compilation report would be eliminated under specified circumstances, replaced by definitive engagement letters and an added footnote to the financial statements – all at the expense of diluting the CPA's professionalism.

What will the proposal accomplish? What kind of GAAP or OCBOA shortcuts or misstatements are envisioned that would make reporting so onerous?

We had experience with internal use statements years ago during the "unaudited" period when so often the wide distribution of the statements ignored their limiting footnote. If we're going to have a profession, CPA's should act like CPA's. Looseness in reporting could lead to looseness in professionalism.

This proposed amendment will not alleviate any problems – it will only tend to tarnish the CPA title. The present SSARS rules are as far as we dare go.


Charles Chazen, CPA

COMMENT LETTER #11

Three items of concern that lead me to conclude that it is not in the best interest of the AICPA to adopt this new reporting (?) standard.

Seems to me the implication is we are not providing a professional service. Should we be able to go to a drugstore and get a prescription filled because we told the pharmacist we saw our doctor and he/she said go get some such and such medicines?

The disclosure "Restricted for Management's Use Only," is weak and open to misinterpretation. Companies usually use terms such as confidential, internal use only, not for distribution to third parties, employees only etc. If we are to issue these types of statements it must be very clear they are not only not to be used by anyone but management, but they are not to be seen or given to anyone outside the company.

Finally, what is the risk (?), remedy (?) or repercussions (?) for such a restricted report that needs to be or is later issued as a compiled/reviewed/audited report and there are substantial changes?

Thanks,

TF Houston

Ted Feher, MBA, CPA
Senior Manager
713-975-1000--x 112
713-975-7450 Fax

Gary H. O'Krent

Certified Public Accountant

15233 VENTURA BOULEVARD • SUITE 1212
SHERMAN OAKS, CALIFORNIA 91403

AREA CODE 818
TELEPHONE 783-5533
FACSIMILE 783-4706
VOICE MAIL (310) 551-9624

February 8, 2000

Ms. Sherry Boothe, Audit and Attest Standards File 2000
A.I.C.P.A.
1211 Avenue of the Americas
New York, NY 10036-8775

Response to Exposure Draft "Amendment To SSARS 1" December 31, 1999

Dear Ms. Boothe:

The summary to the referenced draft describes available "low-cost accounting software that has financial statement presentation capabilities. Most of these I have seen produce acceptable but antiquated formats and produce only balance sheets and statements of income. The exposure draft for "assembly of financial statement" also dealt with the cost of services and competition from bookkeeping services, which I suspect also is addressed in the current exposure draft. The internal use statement which the exposure draft summary refers to as "statements intended for management's use" is only an assembled financial statement under a different name.

Prior to issuance of Statements on Standards for Accounting and Review Services, the California Board of Accountancy had its own standards for reporting on "unaudited financial statements." Those standards also included "internal use statements" which periodically would find their way into financial institution loan files, escrow company filings with the State Real Estate Regulatory Agency, and other state regulatory agencies. Earl King, a California C.P.A. who helped the Board of Accountancy with the aforementioned reporting standards and John Waddell, a California C.P.A., were both members of the original Accounting and Review Services Committee. When the California Board of Accountancy considered accepting SSARS-1 and deleting its unaudited financial statement reporting standards, it formed A Reporting Standards Committee (Ad-Hoc) of its C.P.A.s (including board members) of which I was a member. Mr. King and Mr. Waddell appeared before the committee and in detail explained the flexibility of compiled financial statements, which regrettably was not done through any of the professional education courses. The California Board of Accountancy adopted SSARS-1 by reference to replace its standards for reporting on unaudited financial statements. In the exposure draft regarding "management use" statements puts the situation back to where it was twenty-two years ago.

Paragraph 1.05 "definitions" removes as a condition of submission that instituted by SSARS-7, AR 100.07, "...The accountant modified by materially changing account classification, amounts, or disclosures directly on client-prepared financial statements." I do not understand how the publication of a financial statement by someone other than the accountant who performed the aforementioned procedures could remove liability or responsibility from the accountant.

The exposure draft in item 1.20 on Page 13, briefly mentions independence, however, no attempt is made to address ET 101.05 of interpretation of "rule 101-independence", 101-3 "performance of other services." Namely "independence would be impaired by a bookkeeping service", that determines or "changes journal entries, account coding, or classification for transactions, or other accounting records without obtaining client approval." See Attached.

The 1998/1999 "Accounting Alert" I believe made the statement that the compilation service is a professional service. I suggest that the exposure draft be revised to require an understanding in writing between the accountant and the entity to address that professionalism. The document could either be a full narrative engagement letter or an outline format often referred to as an engagement memorandum. The understanding should include all of the elements proposed in the exposure draft, with appropriate additions for management use only statements, which I personally oppose, and in addition the following:

1. The accountant's report on the financial statements may not be reproduced or otherwise copied without permission.
2. The entity will give the accountant a list of all entities and persons receiving copies of the financial statement that will be kept current. A court decision that indicated that the accountant is liable only to those the accountant has knowledge will rely on the statements is the reason for this.
3. The entity gives the accountant permission to modify information prepared by the entity and given to the accountant for bookkeeping services and/or financial reporting purposes. In the alternative, the entity may reserve the right to review the changes and then approve the results.

In my opinion, no accountant is going to be spared from responsibility by the existence of a standard or document that indicates modification of an entity's data by changes that individually or in the aggregate are material are the entity's responsibility because it published a financial statement from that data. The exposure draft should reinstate submission as it was originally articulated in SSARS-7, with the possibility that the actual publishing of a financial statement by accountant does necessarily constitute submission in and of itself.

Ms. Sherry Boothe

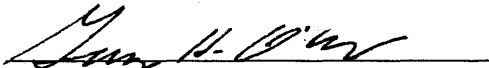
February 8, 2000

Page 3

Thank you for the opportunity to respond to the exposure draft. I have taken the liberty of attaching a brief bio from the course manual I developed for a CPE class in Compilation and Review I teach. I would only add to it that I am currently serving on the California Board of Accountancy's Task Force assisting the board in the adoption and implementation of Peer Review as required by the U.A.A.

Sincerely yours,

By:



Gary H. O'Krent

Certified Public Accountant

cc: California Board of Accountancy in care of Ms. Carol Sigman, Executive Officer
Mr. Charles Chazen, C.P.A.
Mr. Ric Rosairo, Vice President, Loss Prevention, CAMICO

ABOUT THE SEMINAR DEVELOPER/PRESENTER

GARY H. O'KRENT, C.P.A., is a principal and shareholder in the accounting firm of Bluestein, O'Krent & Bluestein in Sherman Oaks, California. He serves on the AICPA's board of examiners' examination content oversight task force. A peer reviewer for both the AICPA and the California State Board of Accountancy's report quality monitoring committee, he also served on the California Board's qualifications committee, twice as its chairperson, on its 150- hour education/CPA examination task force and on its equivalent experience task force. He is a member of the American Institute of Certified Public Accountants, California Society of CPA's, and the Society of California Accountants.

[Replaces previous interpretation 101-2, *Retired Partners and Firm Independence*, August, 1989, effective August 31, 1989. Revised, effective December 31, 1998, by the Professional Ethics Executive Committee.]

.05 101-3—Performance of other services. A member in public practice or his or her firm (“member”) who performs for a client services requiring independence (“attest services”) may also perform other nonattest services (“other services”) for that client. Before a member performs other services for an attest client, he or she must evaluate the effect of such services on his or her independence. In particular, care should be taken not to perform management functions or make management decisions for the attest client, the responsibility for which remains with the client’s board of directors and management.

Before performing other services, the member should establish an understanding with the client regarding the objectives of the engagement, the services to be performed, management’s responsibilities, the member’s responsibilities, and the limitations of the engagement. It is preferable that this understanding be documented in an engagement letter that indicates the member will not perform management functions or make management decisions. In addition, the member should be satisfied that the client is in a position to have an informed judgment on the results of the other services and that the client understands its responsibility to—

1. Designate a management-level individual or individuals to be responsible for overseeing the services being provided.
2. Evaluate the adequacy of the services performed and any findings that result.
3. Make management decisions, including accepting responsibility for the results of the other services.
4. Establish and maintain internal controls, including monitoring ongoing activities.

General Activities

The following are some general activities that would be considered to impair a member’s independence:

- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of a client (for example, negotiating a transaction), or having the authority to do so
- Preparing source documents¹ or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders)
- Having custody of client assets
- Supervising client employees in the performance of their normal recurring activities
- Determining which recommendations of the member should be implemented
- Reporting to the board of directors on behalf of management
- Serving as a client’s stock transfer or escrow agent, registrar, general counsel or its equivalent

¹ The documents upon which evidence of an accounting transaction are initially recorded. Source documents are often followed by the creation of many additional records and reports, which do not, however, qualify as initial recordings. Examples of source documents are purchase orders, payroll time cards, and customer orders.

The examples in the following table identify the effect that performance of other services for an attest client can have on a member's independence. These examples are not intended to be all-inclusive of the types of other services performed by members.

Impact on Independence of Performance of Other Services

<u>Type of Other Service</u>	<u>Independence Would Not Be Impaired</u>	<u>Independence Would Be Impaired</u>
<u>Bookkeeping</u>	<ul style="list-style-type: none"> • Record transactions for which management has determined or approved the appropriate account classification, or post coded transactions to a client's general ledger. • Prepare financial statements based on information in the trial balance. • Post client-approved entries to a client's trial balance. • Propose standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the client. • Provide data-processing services. 	<ul style="list-style-type: none"> • Determine or change journal entries, account codings or classification for transactions, or other accounting records without obtaining client approval. • Authorize or approve transactions. • Prepare source documents or originate data. • Make changes to source documents without client approval.
Payroll and other disbursement	<ul style="list-style-type: none"> • Using payroll time records provided and approved by the client, generate unsigned checks, or process client's payroll. • Transmit client-approved payroll or other disbursement information to a financial institution provided the client has authorized the member to make the transmission and has made arrangements for the financial institution to limit the corresponding individual payments as to amount and payee. In addition, once transmitted, the client must authorize the financial institution to process the information. • Make electronic payroll tax payments in accordance with U.S. Treasury Department guidelines provided the client has made arrangements for its financial institution to limit such payments to a named payee.² 	<ul style="list-style-type: none"> • Accept responsibility to authorize payment of client funds, electronically or otherwise, except as specifically provided for with respect to electronic payroll tax payments. • Accept responsibility to sign or cosign client checks, even if only in emergency situations. • Maintain a client's bank account or otherwise have custody of a client's funds or make credit or banking decisions for the client. • Sign payroll tax return on behalf of client management. • Approve vendor invoices for payment.
Benefit plan administration ³	<ul style="list-style-type: none"> • Communicate summary plan data to plan trustee. • Advise client management regarding the application or impact of provisions of the plan document. • Process transactions (e.g., investment/benefit elections or increase/ 	<ul style="list-style-type: none"> • Make policy decisions on behalf of client management. • When dealing with plan participants, interpret the plan document on behalf of management without first obtaining management's concurrence.

² Although this type of transaction may be considered by some to be similar to signing checks or disbursing funds, the Professional Ethics Executive Committee concluded that making electronic payroll tax payments under the specified criteria would not impair a member's independence.

³ When auditing plans subject to the Employee Retirement Income Security Act (ERISA), Department of Labor (DOL) regulations, which may be more restrictive, must be followed.

COMMENT LETTER #13

Donald E. Fallis, CPA
Houston, TX

.06 The accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. However, if the engagement is to compile financial statements not expected to be used by a third party, a written communication is required. (See paragraphs .21 and .22.) The understanding should include a description of the nature and limitations of the services to be performed and a description of the report, if a report is to be issued. The understanding should also provide (a) that the engagement cannot be relied upon to disclose errors, fraud or illegal acts and (b) that the accountant will inform the appropriate level of management of any material errors that come to his or her attention and any fraud or illegal acts that come to his or her attention, unless they are clearly inconsequential. Examples of engagement letters are presented in appendixes C, D, and E.



February 25, 2000

Ms. Sherry Boothe
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 2000
Exposure Draft
Amend SSARS No. 1, Effective 09/30/2000
No. 800140CPA02

Dear Ms. Boothe:

The Technical Standards Committee of the South Carolina Association of CPAs has reviewed the aforementioned Exposure Draft.

The Committee concurs with all of the proposed amendments with one minor exception; when an accountant submits to a client, financial statements not expected to be used by a third-party, then the accountant must obtain a "signed-by" client engagement letter or issue therewith a letter documenting the services and limitations.

The Committee supports engagement letters in this situation as well as all other areas of audit and attest services. We believe, however, the "signed-by" requirement is beyond the current standards (AR Sec. 100.08) for general compilation engagements. We would encourage engagement letters "signed-by" client for all SSARS services. But, if not for all SSARS services, then why consider a more severe requirement in this area?

The Accounting and Review Services Committee should be commended on proposing a well written, most needed, and very beneficial proposed amendment to SSARS No. 1.

Very truly yours,

John F. Hamilton, CMA, CPA
Chairman Technical Standards Committee - SCACPA

Members:

- C. Thomas DeWitt
- Thomas E. Fitzsimmons
- Terry Grayson-Mills
- Robert A. Keisler
- J. Russell Madray
- James M. Stewart
- Richard A. Stratton
- D. Ken Whitener
- George R. Wise

C:\DATA\WPDATA\FORMS\SCACPA Technical Standards Committee.wpd

ROBERT H. FORREST, CPA
1811 East La Vieve Lane
Tempe, Arizona 85284
(602) 491-3444 • FAX (602) 491-2371

#15

February 28, 2000

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Ave. of the Americas
New York, NY 10036-8775

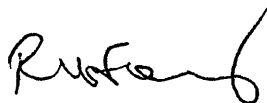
Re: Exposure Draft #800140
Amendment to SSARS 1

I have one comment on this exposure draft.

You omitted any reference to "draft" financial statements. There should be a provision allowing such statements. I use them to show a company how its financial statements will look with one or more journal adjustments in place. Sometimes it takes several iterations to arrive at the desired result. I have no reason to issue compilation reports or write engagement letters for each version of these sample statements. I stamp them "draft" in large red letters.

Please address this issue in the final regulations.

Sincerely,



16

G
&
M

GREEN & MCELREATH
CERTIFIED PUBLIC ACCOUNTANTS
700 LOUISIANA, SUITE 5200
HOUSTON, TEXAS 77002-2733
713/228-1040
713/228-0028 FAX
800/779-0124

ROSS MCELREATH, CPA
FRANK CHOVANETZ, CPA
ROBERT L. PURNELL, CPA

March 1, 2000

Audit and Attest Standards
File 2200
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Attn.: Sherry Boothe

Re: Proposed Amendment to Statement on Standards
For Accounting and Review Services 1

Dear Madam:

I thought that certified public accountants were supposed to be "a-cut-above" the average accountant. The minimal amount of inconvenience the compilation causes is clearly a worthwhile effort to make us "a-cut-above". Any inconsistency within the profession is a sign of lax enforcement of the rules and certainly no reason to change those rules. Please leave SSARS 1 alone so we can continue to be "a-cut-above".

Yours very truly,



Ross McElreath

RM:aw



REMINICK, AARONS & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

17

February 24, 2000

Ms. Sherry Boothe
Audit and Attest Standards
File 2000
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

We are pleased to comment on the exposure draft of the proposed Statement on Standards for Accounting and Review Services (SSARS) titled *Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements*.

In our view, this proposed amendment to SSARS 1 providing communication and performance requirements for unaudited financial statements submitted to a client that are not expected to be used by third parties should be adopted without modification. We believe that the exposure draft as it is written provides the profession with much needed flexibility to provide services needed by many nonpublic entities, that it addresses all the issues it should, and that it provides clear, understandable guidance.

Respectfully submitted,

Robert J. Sonnelitter, Jr., CPA
Director of Accounting and Auditing
Reminick, Aarons & Company, LLP

(mb:bs-comped)

February 28, 2000

Ms. Sherry Booth
Audit and Attest Standards, File 2000
AICPA
Avenue of the Americas
New York, NY 10036-8775

RE: *Proposed Statement on Standards for Accounting and Review Services No.1*

I believe that this is a fine **first-step** by incorporating the ***engaged to report*** criterion.

However, as a consultant to local firms on the implementation of professional standards, I have the following concerns about the proposed amendment to SSARS No. 1:

1. **Definitions**, Par. .05: The **definition of third party**, and the related **Engagement Letter** language in Appendix D.
2. Par. 20, **Independence**: The interaction of the SSARS Proposal and **Ethics Interpretation 101-3, Other Services**. to effectively limit the reporting (by local firms serving small, nonpublic enterprises) to **compilations with lack of independence disclosure** when providing financial statement presentations for use by **third parties**.

Par. .05, **Definitions**, and the **engagement letter** language in Appendix D, clearly limit an *internal use only* presentation to **members of management who are knowledgeable about the nature of the procedures applied and the basis of accounting and the assumptions used**.

This would limit management's ability to share the financial presentation with rank and file employees or other members of the enterprise with a need to know or with whom management chooses to share financial statement information.

The **AICPA Vision Statement** states that our future role is to assist others in achieving their goals. Limiting the internal use of financial statement information so narrowly is, in my judgment, inconsistent with that objective and highly impractical.

I can't imagine the reaction of a client when we inform them that the financial statements cannot be shared with anyone of their choosing within their organization.

*I also find it intriguing that we, as professionals skilled in the art of accounting, suggest that those we serve must be as knowledgeable about our procedures and technical expertise as us. **Why, then, would they retain us for services ?***

*This would be analogous to the medical profession requiring the heart transplant patient to have knowledge about the detailed, procedural aspects of open-heart surgery before allowing the doctor to perform the procedure; associated **risks, yes, detailed, procedural aspects, no!***

I suggest that our professional standards should delineate our responsibilities to *protect users external to the reporting enterprise* from errant practitioners. Our reports, and understanding with our clients, are the appropriate vehicles to express the limitations on the **reliability** of the information with which we are associated. In my view, any attempt to utilize the promulgated literature to shield the professional from *performance liability* is inconsistent with professional stature.

I attach a **Letter of Concern** regarding Independence that I have separately provided the AICPA Ethics Committee addressing the question of Independence. As stated therein, I firmly believe that **AICPA Ethics Interpretation 101-3** effectively limits the practitioner serving the small, nonpublic enterprises to compilations with lack of independence disclosure in a majority of circumstances. To what extent the interaction of the **proposed third party definition** and **Ethics Interpretation 101-3** was considered by the SSARS Committee is not apparent from the SSARS exposure draft.

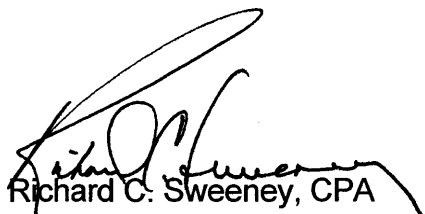
*The reality is that the owner of the small, nonpublic enterprise is going to share information **internally** with whom they please. If that same information is shared with **external users** (**when the CPA has not reported on the data**), I maintain that the external user has assumed the risk for data reliability.*

The audit and attestation literature only requires a report when we are engaged to report. If we merely limit reporting in the unaudited arena to those situations in which we are **engaged to report, without further definitional limitation**, our literature would be internally consistent and our professional stature would not be jeopardized.

If that posture were to be considered, ***it might also make sense to eliminate SSARS, include review requirements within the audit/attestation literature, and revert to the unaudited report in the audit literature as we did before the advent of SSARS.***

I am concerned that, **without refinement to reflect the dynamics of the small, nonpublic business environment**, the combination of these two AICPA initiatives will adversely affect our ability to responsibly serve the market place and will adversely affect the professional stature of responsible CPAs who serve the smaller, nonpublic enterprise.

Sincerely,



Richard C. Sweeney, CPA

ATTACHMENT
Letter of Concern

Letter of Concern

RICHARD C. SWEENEY, CPA

As a CPA in the State of Washington, I am deeply concerned about the implications of AICPA **Ethics Interpretation 101-3, *Independence and Other Services***, to CPAs who provide *Other Services* to nonpublic clients for whom they also provide Compilation, Review, and Audit reporting services.

The actual text of the subject AICPA interpretation is attached. *I have highlighted that language which I believe to be most critical.*

In my professional opinion, this interpretation effectively limits the reporting services of such CPAs to *Compilation Reports with Lack of Independence Disclosure.*

Furthermore, I firmly believe that this interpretation unnecessarily exposes these CPAs to *increased adverse legal determinations* in the event the local firm's work is challenged for other reasons. Peer Review challenges to a local firm's independence will also likely arise.

The reality of the practice environment is that the majority of nonpublic, smaller business clients have neither the expertise nor the interest to meet the *sufficiently informed* criterion set forth in the interpretation. Furthermore, if the small business owner or other management personnel (assuming they exist) were capable of *adequately supervising and monitoring* the other services performed, there would be little incentive to employ CPAs to provide these services. In practice, local firms are routinely engaged to provide write-up service and *Quick Books* training **because** the client does not possess sufficient knowledge to accomplish those tasks.

In some cases, CPAs are attempting to conform to the language of the interpretation by merely drafting journal entries for signature of the client. I suggest that such techniques are *form over substance*. I believe strongly that such techniques, when the client or client's personnel are not sufficiently informed to accept such responsibility (which is a customary scenario), will cause the profession irreparable harm in the court room.

The concept of Independence has been historically recognized as a universal principle that is equally applicable in both the SEC and the nonpublic arenas. My discussions with bankers whose customers are served by local firms indicate that these lenders are not concerned about the Rules of Independence relative to their nonpublic customers and the CPAs who serve those enterprises. In contrast, recent inquiries I have made of several lenders suggest that the more *other services* the CPA provides the nonpublic, small business enterprise, the more comfortable the lenders are with the reliability of the data.

In summary, it appears, not only does this interpretation create an impossible situation for the local firms and put them at greater legal risk, but also that this interpretation flies in the face of the realities of the market place.

I encourage the Ethics Committee to seriously consider these implications, coordinate with the SSARS Committee, and provide definitive relief for the local firms serving those nonpublic, small business clients who are not sufficiently informed to accept supervisory responsibility for the technical expertise of those practitioners.

Richard C. Sweeney, CPA

ATTACHMENT
Interpretation 101-3

INTERPRETATION 101-3 UNDER RULE OF CONDUCT 101
Performance of Other Services

A member in public practice or his or her firm ("member ") who performs for a client services requiring independence ("attest services ") may also perform other non attest services ("other services ") for that client. Before a member performs other services for an attest service client, he or she must evaluate the effect of such services on his or her independence. In particular, care should be taken not to perform management functions or make management decisions for the attest client, the responsibility for which remains with the client's board of directors and management.

Before performing other services the member should **establish an understanding** with the client regarding the **objectives** of the engagement, the **services** to be performed, **management's responsibilities**, the **member's responsibilities**, and the **limitations** of the engagement. It is preferable that this understanding be documented in an engagement letter that indicates the member will not perform management functions or make management decisions.

In addition, the member should be satisfied that the **client** is in a position to have an **informed judgment** on the results of the other services **and** that the **client understands its responsibility** to :

- 1. Designate a management-level individual or individuals to be responsible for overseeing the services being provided.***
- 2. Evaluate the adequacy of the services performed and any findings that result.***
- 3. Make management decisions, including accepting responsibility for the results of the other services.***
- 4. Establish and maintain internal controls, including monitoring ongoing activities***

GENERAL ACTIVITIES
That would Impair Independence

The following are some general activities that would be considered to
impair a member's independence:

- *Have the authority to, or authorize, execute or consummate a transaction, or otherwise exercise authority on behalf of a client (for example, negotiate a transaction)*
 - *Prepare source documents or originate data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders)*
 - *Have custody of client assets*
 - *Supervise client employees in the performance of their normal recurring activities*
 - *Determine which recommendations of the member should be implemented*
 - *Report to the board of directors on behalf of management*
 - *Serve as a client's stock transfer or escrow agent, registrar, general counsel or its equivalent*
-

Examples provided in a table accompanying the interpretation identify the effect that performance of *other services for an attest client* can have on a member's independence.

The examples are not intended to be all-inclusive of the types of other services performed by members.



March 14, 2000

Arthur Andersen LLP
33 West Monroe Street
Chicago IL 60603-5385

Ms. Sherry Boothe
Audit and Attest Standards
File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

We appreciate this opportunity to comment on the proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review Services*.

We have considered the proposed Statement on Standards for Accounting and Review Services and recommend that the Accounting and Review Services Committee issue the final standard as proposed in the exposure draft.

We would be pleased to discuss our comment with you or your staff at your convenience. If you have any questions, please contact Dorsey Baskin at 312-931-2238.

Very truly yours,

Arthur Andersen LLP

SAMUEL A. DERIEUX

707 EAST MAIN STREET, SUITE 500

RICHMOND, VIRGINIA 23219

TELEPHONE (804) 697-1534

FAX (804) 697-1825

March 22, 2000

The Accounting and Review Services Committee
American Institute of CPAs
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Amendment to SSARS 1 -- File 2200

Ladies and Gentlemen:

Accompanying this letter are specific comments on the proposed amendment to SSARS 1. I have four general comments not related to any one specific provision:

1. I am pleased that you have elected to amend the existing standard rather than create a new numbered standard. I would like to hope that the FASB will someday follow your example.
2. I am also pleased that the amendments come under the compilation standards and that no new designation is being created.
3. I reiterate what I have said before. Management use financial statements will continue to find their way into the hands of non-management users. Experience tells us that has been the case. There is no reason to believe it will not continue to be the case.
4. Financial statements can state clearly that they are intended for use by management and should not be relied upon by others. It is unrealistic to assume that the CPA can prevent them from falling into other hands. Nor would the CPA necessarily know if they are seen by outsiders. A warning to outsiders will serve the public interest better than a futile attempt to restrict access.

I know that you have worked long and hard to reconcile the wide variety of opinions on this subject. I will be interested in the results of the exposure process.

Thank you for your dedication to our profession.

Sincerely yours,


Samuel A. Derieux, CPA

COMMENTS ON

AMENDMENT TO STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW
SERVICES 1, *COMPILATION AND REVIEW OF FINANCIAL STATEMENTS*

By

Samuel A. Derieux, CPA

The first two paragraphs in the WHY ISSUED section of the SUMMARY state very clearly and accurately the need for amendment of SSARS 1. The availability of easy to use computer software will not eliminate the association of CPAs with unaudited financial statements. Therefore, I am in agreement with the need to clarify the responsibilities of CPAs associated with such financial statements.

I also agree wholeheartedly that we should not create a new designation such as "assembled" financial statements.

Specific Comments

All references are to sub-paragraphs of main paragraph 1.

01 a.2. As stated in my cover letter, experience tells us that management use financial statements will inevitably come into the hands of non-management users. Efforts by CPAs to impose a restriction on clients will sometimes be futile. Why pretend otherwise?

21. With respect to unaudited financial statements submitted to management and not intended for use by others, the first two bullets in paragraph 21 are appropriate. I suggest amending the third bullet to read:

Issue a letter to management documenting an understanding with the entity regarding the services to be performed and the fact that they are not intended for use by others. Such a letter should be issued before or at the time the statements are issued.

That statement puts management on notice about the intended purpose, but it also avoids a breach of the agreement if the statements are shown to an outsider. It also removes from the CPA any implied obligation to monitor how the statements are used after being released.

22. The second bullet of the part referring to additional matters states that the documentation of the understanding with the client should include the fact that "Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed". That is fine, but I recommend that similar language be required on the financial statements themselves.

This will serve three important purposes:

1. If the statements do fall into the hands of non-management users, those users will be put on notice that there may be departures.
2. It will be further protection for the CPA. Whether or not the statements were intended for their use, non-management users may try to hold the CPA responsible for GAAP or OCBOA departures. That is less likely if the statements contain a clear statement about possible departures.
3. Some members of management may not be familiar with the understanding between the CPA and the client company (for example a company president who is sales oriented). The departure legend will make it clear to non-financial members of management that the statements may contain GAAP or OCBOA departures. That further protects the CPA from misunderstandings.

23. I suggest that we be clear about the intended use, but that we avoid the pretense of restrictions. The reference on each page would read:

This statement is for use by management and should not be relied upon by others. It may contain material departures from GAAP or OCBOA and the effects of those departures, if any, are not disclosed.

The second sentence would be added only when appropriate.

The legend required by paragraph 23, states "...should not be used by anyone other than the specified party". There is no specified party anywhere in that statement. That is why I have said "should not be relied upon by others" rather than referring to an unspecified specified party.

SUMMARY

1. The understanding with the client should be made clear and documented as indicated in the proposed amendment.
2. The myth that CPAs will be able to prevent management use financial statements from falling into the hands of others should be abandoned.
3. The statements should contain a positive assertion that they are intended for management use and should not be relied upon by others. There should be no pretense that they can be restricted.
4. The statements should also contain a clear statement about possible GAAP or OCBOA departures. If (or rather when) some of these financial statements fall into the hands of outsiders, no one should be misled.
5. A client may intentionally or inadvertently provide an outsider with financial statements intended for management use. In that case, these recommendations will make it clear to the outsider that they should not be relied upon and that there may be GAAP or OCBOA departures. I believe we have a professional obligation to take reasonable steps to avoid misleading even an unintended user of financial statements.

SAMUEL A. DERIEUX

707 EAST MAIN STREET, SUITE 500
RICHMOND, VIRGINIA 23219
TELEPHONE (804) 697-1534
FAX (804) 697-1825

April 6, 1999

Diane S. Conant, Chair
Accounting and Review Services Committee
American Institute of CPAs
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Internal Use Financial Statements

Dear Diane:

The lively discussion of internal use financial statements at the recent regional Council meeting prompts me to write some of my reflections on that subject. This subject has come up periodically over the years and seems to have faded away each time without resolution. I hope that you and your committee can find a way to put it to rest.

First and foremost, I think it is imperative to face the fact that internal use statements will never be confined to internal use only. Nor is it desirable that they be. Internally generated financial statements can be, and often are, useful to creditors and other non-management users. They are no less useful just because a CPA happens to have been involved in their preparation.

There are small companies which are unable to produce interim statements without the participation of a CPA. The client should be able to use those statements just as if they had been prepared without the CPA having been involved. There should, of course, be a clear statement about any potential GAAP departures. To restrict the use of the statements is unfair to the client, and it would also put the CPA at a competitive disadvantage compared to other accounting service providers.

Therefore, I see the issue not as one of limitation of use but of developing wording which warns the user that they may not conform to GAAP. This could be accomplished by a concise, forthright statement such as

These financial statements have been prepared for use by management and do not necessarily conform to generally accepted accounting principles in all respects. They should not be relied upon by anyone unfamiliar with the nature of any departures from generally accepted accounting principles.

Diane S. Conant
April 6, 1999
Page 2

If it is necessary to categorize the service involved, there is no need to create a new designation. It could come under the heading of compilations just as has been done for statements which are presented without disclosures. In that case, the word "prepared" in the statement above could be changed to "compiled".

This would also avoid what has been referred to as the "inadvertent compilation". It really should not matter whether the CPA pushes the print button or advises the client to push the print button. The degree of participation by the CPA need not be an issue.

One of the proposals discussed at the regional Council meeting would have the client agree in writing not to furnish the statements to anyone other than management. Unfortunately that is just not realistic. Picture a client in a conference with a banker. The client refers to the "internal use only" statements to answer a question and the banker says, "May I see that?". The client says, "No you may not, their use is restricted to management personnel". Or does the client say, "I am not supposed to show them to you, but neither do I want to withhold anything from you so here have a look"? You be the judge as to which is the most likely answer in many cases.

Please give careful consideration to these comments and

- avoid the delusion that statements will be restricted to internal use,
- assure that interim financial statements with which a CPA has been associated will be no less useful than those prepared without the assistance of a CPA,
- do not make the solution any more complicated than it has to be and,
- remember that a simple, forthright statement will convey the message far better than a long recitation of technical babble.

I would like very much to discuss this subject with you sometime at your convenience. The subject is important and cries out for a solution.

Sincerely yours,

Samuel A. Derieux, CPA

SAMUEL A. DERIEUX

707 EAST MAIN STREET, SUITE 500

RICHMOND, VIRGINIA 23219

TELEPHONE (804) 697-1534

FAX (804) 697-1825

March 22, 2000

The Accounting and Review Services Committee
American Institute of CPAs
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Amendment to SSARS 1 -- File 2200

Ladies and Gentlemen:

Accompanying this letter are specific comments on the proposed amendment to SSARS 1. I have four general comments not related to any one specific provision:

1. I am pleased that you have elected to amend the existing standard rather than create a new numbered standard. I would like to hope that the FASB will someday follow your example.
2. I am also pleased that the amendments come under the compilation standards and that no new designation is being created.
3. I reiterate what I have said before. Management use financial statements will continue to find their way into the hands of non-management users. Experience tells us that has been the case. There is no reason to believe it will not continue to be the case.
4. Financial statements can state clearly that they are intended for use by management and should not be relied upon by others. It is unrealistic to assume that the CPA can prevent them from falling into other hands. Nor would the CPA necessarily know if they are seen by outsiders. A warning to outsiders will serve the public interest better than a futile attempt to restrict access.

I know that you have worked long and hard to reconcile the wide variety of opinions on this subject. I will be interested in the results of the exposure process.

Thank you for your dedication to our profession.

Sincerely yours,


Samuel A. Derieux, CPA

COMMENTS ON
AMENDMENT TO STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW
SERVICES 1, *COMPILATION AND REVIEW OF FINANCIAL STATEMENTS*

By

Samuel A. Derieux, CPA

The first two paragraphs in the WHY ISSUED section of the SUMMARY state very clearly and accurately the need for amendment of SSARS 1. The availability of easy to use computer software will not eliminate the association of CPAs with unaudited financial statements. Therefore, I am in agreement with the need to clarify the responsibilities of CPAs associated with such financial statements.

I also agree wholeheartedly that we should not create a new designation such as "assembled" financial statements.

Specific Comments

All references are to sub-paragraphs of main paragraph 1.

01 a.2. As stated in my cover letter, experience tells us that management use financial statements will inevitably come into the hands of non-management users. Efforts by CPAs to impose a restriction on clients will sometimes be futile. Why pretend otherwise?

21. With respect to unaudited financial statements submitted to management and not intended for use by others, the first two bullets in paragraph 21 are appropriate. I suggest amending the third bullet to read:

Issue a letter to management documenting an understanding with the entity regarding the services to be performed and the fact that they are not intended for use by others. Such a letter should be issued before or at the time the statements are issued.

That statement puts management on notice about the intended purpose, but it also avoids a breach of the agreement if the statements are shown to an outsider. It also removes from the CPA any implied obligation to monitor how the statements are used after being released.

22. The second bullet of the part referring to additional matters states that the documentation of the understanding with the client should include the fact that "Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed". That is fine, but I recommend that similar language be required on the financial statements themselves.

This will serve three important purposes:

1. If the statements do fall into the hands of non-management users, those users will be put on notice that there may be departures.
2. It will be further protection for the CPA. Whether or not the statements were intended for their use, non-management users may try to hold the CPA responsible for GAAP or OCBOA departures. That is less likely if the statements contain a clear statement about possible departures.
3. Some members of management may not be familiar with the understanding between the CPA and the client company (for example a company president who is sales oriented). The departure legend will make it clear to non-financial members of management that the statements may contain GAAP or OCBOA departures. That further protects the CPA from misunderstandings.

23. I suggest that we be clear about the intended use, but that we avoid the pretense of restrictions. The reference on each page would read:

This statement is for use by management and should not be relied upon by others. It may contain material departures from GAAP or OCBOA and the effects of those departures, if any, are not disclosed.

The second sentence would be added only when appropriate.

The legend required by paragraph 23, states "...should not be used by anyone other than the specified party". There is no specified party anywhere in that statement. That is why I have said "should not be relied upon by others" rather than referring to an unspecified specified party.

SUMMARY

1. The understanding with the client should be made clear and documented as indicated in the proposed amendment.
2. The myth that CPAs will be able to prevent management use financial statements from falling into the hands of others should be abandoned.
3. The statements should contain a positive assertion that they are intended for management use and should not be relied upon by others. There should be no pretense that they can be restricted.
4. The statements should also contain a clear statement about possible GAAP or OCBOA departures. If (or rather when) some of these financial statements fall into the hands of outsiders, no one should be misled.
5. A client may intentionally or inadvertently provide an outsider with financial statements intended for management use. In that case, these recommendations will make it clear to the outsider that they should not be relied upon and that there may be GAAP or OCBOA departures. I believe we have a professional obligation to take reasonable steps to avoid misleading even an unintended user of financial statements.

COMMENT LETTER #21

The new SSARS no. 1 standards are long overdue in our industry. I wish to express my full support for the proposed regulations. Currently, CPA's ability to give management the ability to manage information based off of basic financial statement information is limited due to the current compilation standards. As a Quickbooks(r) Certified ProAdvisor, my clients look to me to assist them with the use of their software and also to minimize the cost of utilizing reporting tools in the software. As shown in the case study, if I assist them with a journal entry and then print a statement based off of their information, I am subject to full compilation standards. This places severe cost consequences on a small business due to additional expense for my time to complete a full compilation.

Again, I fully support the standards of SSARS no. 1 and hope that you will pass along this information to the final decision makers.

Thanks!

Donna

Check out the UPDATES to our website: <http://home.earthlink.net/~dlbcpa/> Now accepting Visa, Mastercard, Discover, and American Express for your convenience!

COMMENT LETTER #22

To the members of ARSC:

I agree with the contents of the proposed Statement. My only concern is whether you should include additional language to specifically state how a member must still comply with the other requirements of SSARS #1 (Paragraph #1, last sentence starting with "However, this Statement.....").

If you have any questions, please contact me at (808) 988-8009, ext. 13 or haranocpa@hawaii.rr.com.

Rodney M. Harano, CPA
2733 East Manoa Road
Honolulu, HI 96822

#23

Gingras, Collister, Babinski & Co.

Certified Public Accountants

Bernard R. Gingras, CPA
William M. Collister, CPA
Raymond Babinski, CPA

333 Fairfield Road • Fairfield • NJ 07004
(973) 227-8100 • Fax (973) 227-4968

Voice Mail No. 201 • E-mail • bocefuss@aol.com

Brian R. Dec, CPA
Norman M. Fleischer, CPA

April 25, 2000

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Boothe,

I am writing to comment on the exposure draft concerning the **Proposed Statement on Standards for Accounting and Review Services** dated December 31, 1999. I am writing both as a small practitioner in an eight-accountant firm and also as a member of AICPA Council representing New Jersey.

By way of background, I have consistently over the years held the position that we do not need a lower standard of service below the compilation level which would create the "plain paper" statement. That being said, my position has changed in the last two years with the advent of technology and the proliferation of client directed accounting systems. Specifically, we have many clients that keep their own records on programs such as QuickBooks Pro which we then receive a disk from at the end of the year, make adjustments and return the disk to them. We do not create financial statements of any kind, not the least of which are "plain paper" financial statements. However, by returning the disk to them under **SSARS** we are associated with financial statements that could or would be printed off from that disk. This has created a lot of problems within our firm because technically it means we would have to issue a compilation letter attached to the disk we send back to our client. This creates an unacceptable situation which has led me to move toward a moderation of my position along the lines of the Proposed Statement.

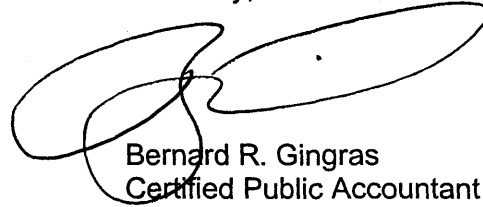
At point, my issue right now with the Statement deals with the financial statements "not for third parties". Specifically I believe the communication that the accountant sends to the client should be responded to by the client. In other words, it should be set up similar to an engagement letter where a response line (i.e. a signature to acknowledge agreement by the client) is mandated.

I understand that the committee is trying to loosen the flow of Commerce and not to restrict it anymore but I believe we also must protect our members and the response

by the client is the greatest protection we can have. If the communication is only one sided, from the accountant to the client, it will be useless down the road.

Those are my comments at this time. If I can be of any further service please feel free to contact me directly.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke, positioned above the printed name.

Bernard R. Gingras
Certified Public Accountant

BRG:cr

#24



ARTHURANDERSEN

Ms. Sherry Boothe
Audit and Attest Standards
File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Arthur Andersen LLP
33 West Monroe Street
Chicago IL 60603-5385

May 8, 2000

Dear Ms. Boothe:

We are withdrawing our comment letter dated March 14, 2000 on the proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review Services*.

We reevaluated our support for issuing the final standard as proposed in the exposure draft after consideration of "A New Approach to Compilations," *Journal of Accountancy*, April 2000 (J of A article). We are troubled by the co-authors' (both members of the Accounting and Review Services Committee) interpretation of the proposed standard that some members of management could be considered third parties. The article states, "The ED defines third parties as 'all parties except for members of management who are knowledgeable about the nature of the procedures applied and the basis of accounting or assumptions used in the presentation of financial statements.' Note that this is a definition by exception—it starts by assuming that *third parties* includes everyone, except certain members of management. Under this definition, some members of management could be considered third parties (those who are not knowledgeable about the entity's accounting matters)." We are concerned that this interpretation will create confusion in a situation that previously was well understood, i.e., a party unrelated to the client is generally considered to be a third party.

We are unable to find a conceptual basis for a conclusion that an owner, officer, or senior manager of an enterprise could be a related party and a third party at the same time and we do not believe such a conclusion is necessary or useful. For example, based on the interpretation in the J of A article, the principal owner of a business, a division president, or a chief operating officer could sign and accept the terms of an engagement letter and yet be considered a third party for purposes of the communication requirements of the proposed standard. We believe that is not consistent with existing definitions of "client," "management," and "related parties", as those terms are defined in AICPA Code of Professional Conduct, ET Section 92, *Definitions*, and Statement of Financial Standards No. 57, *Related Party Disclosures* (see Appendix 1).

We are concerned that the J of A article interpretation of the definition of a third party would not be operational in practice. Management-only financial information, whether or not in the form of financial statements, is often used by business managers in assessing past performance and profitability of an enterprise and its prospects for the future. Non-financial managers are judged at least to some extent on the results of business operations. Since even the smallest business enterprise can have complex or intricate production or marketing processes, the successes and failures of an entity are the result of the interaction of numerous factors. Financial statement captions including, but not limited to, receivables, payables, inventory, and plant, property and equipment are inextricably linked to business operations. A definition of third parties that includes members of management (e.g., senior managers in marketing or operations) neither fully considers the complexities of modern business activities, nor the role of the accounting or finance officer in the development and implementation of business strategy and the related measurement of business performance.

We propose that the definition of a third party in paragraph .05 be revised as follows:

Third party. All parties external to the client. The term "client" is used as that term is defined in the AICPA Code of Professional Conduct, ET Section 92, *Definitions*.

Finally, we are troubled because the interpretation and significance of the definition of a third party was not an integral part of the exposure draft and therefore not subject to due process. Accordingly, we recommend that the Accounting and Review Services Committee consider whether the proposed standard should be reexposed to ensure that interested parties have the opportunity to comment on all aspects of the exposure draft.

We would be pleased to discuss our comments with you or your staff at your convenience. If you have any questions, please contact Dorsey Baskin at 312-931-2238.

Very truly yours,

A handwritten signature in cursive script that reads "Arthur Andersen LLP".

Arthur Andersen LLP

Appendix 1

Client. A client is any person or entity, other than the member's employer, that engages a member or a member's firm to perform professional services or a person or entity with respect to which professional services are performed. ET Section 92, paragraph .01.

Management. Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management. SFAS 57, paragraph 24 (d).

Related parties. Affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. SFAS 57, paragraph 24 (f).

COMMENT LETTER #25

Dear Sherry,

After reading the exposure draft and being the owner of a small CPA firm, I fully support the proposed changes to SSARS no.1 without modification.

Sincerely,

Bruce Norling
Bruce D Norling, CPA, P.C.
410 Boston Post Rd
Sudbury MA 01776

#26

KATCH, TYSON & COMPANY

Certified Public Accountants

191 WAUKEGAN ROAD
NORTHFIELD, ILLINOIS 60093-2726
(847) 446-3700
FAX NO. (847) 446-7514

May 11, 2000

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Amendment to SSARS 1

This proposal is for different procedures in those situations in which the financial statements are not expected to be used by a third party. Why?? What is being accomplished? How does this proposal alleviate any burden upon the accountant?

I cannot support the adoption of this proposal because I fail to see what is accomplished. The necessity of issuing a letter to management documenting the understanding with the entity regarding the services to me performed, etc., removes any advantage there might be to issuing an accountant's report. It's easier to just issue the report.

This seems to be total nonsense. If the small practitioner, of which I am one, is screaming about Standards overload, this proposal is hypocritical. We are CPA's. We do quality work. Why are we running from our responsibilities?

Very truly yours,

KATCH, TYSON & COMPANY



Ronald S. Katch

RSK:tle

COMMENT LETTER #27

Lela D. Pumphrey, CGFM, CPA
Idaho State University
Campus Box 8020
Pocatello, ID 83201
Voice 208/236-4292
FAX 208/236-4367
pumplela@isu.edu

May 15, 2000

Ms. Sherry P. Boothe
Audit and Attestation Standards, File #2156
AICPA
1211 Avenue of the Americas
New York, NY 20036-8775

RE: Exposure Draft, Proposed Statement on Standards for Accounting and Review Service "Amendment to Statement on Standards for Accounting and Review Service 1, Compilation and Review of Financial Statements

Dear

On behalf of the Association of Government Accountant (AGA), the Financial Standards Advisory Committee (Committee) appreciates the opportunity to comment on the above-referenced AICPA exposure draft. The Committee, whose members are active accountants and auditors in federal, state, and local government, reviews and responds to proposed standards and regulations of interested to the AGA membership. Local AGA chapters and individual members are also encouraged to comment separately.

The Committee offers the attached comments.

Again, we appreciate this opportunity to comment on the Exposure Draft. If you have any questions, or desire further details on the Committee's position, please contact me at 208-236-4292 or at pumplela@isu.edu at your convenience.

Respectfully,

Lela D. "Kitty" Pumphrey, Chair
AGA Financial Standards Advisory Committee

We agree in principle with the guidance contained in the Exposure Draft (ED) for compilation engagements. We do, however, have the following eight comments and suggestions for the Accounting and Review Services Committee (Committee) to consider in finalizing the document.

1. In Paragraph 1.05, on Page 9 of the ED, the first sentence following the bulleted examples of financial statements states that “A financial statement may be, for example, that of...a government unit...” Because the term *government unit* usually implies a division or agency of a governmental entity, for clarity we suggest that the Committee revise this sentence slightly to read “A financial statement may be, for example, that of...a governmental entity...”
2. Also in Paragraph 1.05, on Page 9 of the ED, because financial statements for governmental entities are included within the scope of the proposed Statement, we suggest that the Committee expand the list of bulleted examples of financial statements to include “Statement of net assets” and “Statement of revenues, expenditures, and changes in fund balance.” These are examples of typical government financial statements under the new governmental financial reporting model.
3. Paragraph 1.08, on Page 10 of the ED, requires that the accountant possess a knowledge of accounting principles and practices of the client’s industry. Footnote 10, at the bottom of Page 10, states that “For purposes of this Statement, the term *industry* includes not-for-profit activities.” Because the proposed Statement will also include governmental entities, we suggest that the Committee expand Footnote 10 slightly to read “For purposes of this Statement, the term *industry* includes governmental and not-for-profit activities.”
4. Paragraph 1.21, on Page 13 of the ED, provides the accountant with three distinct options when submitting unaudited financial statements to a client that are not expected to be used by a third party. The accountant can either issue a compilation report, obtain an engagement letter signed by management, or issue a letter to management documenting the terms of the engagement. Because Paragraph 1.21 is silent as to the type of transmittal letter or accountant’s letter that would accompany the compiled financial statements under either the second or third option, we suggest that the Committee include a sentence in the final Statement (either immediately following the third bullet or as a footnote) expressly stating that, unless the engagement letter or letter to management is issued at the time the statements are submitted, no other accountant’s report would be issued with the financial statements when the accountant selects the option in either the second or third bullet.
5. Paragraph 1.23, on Page 14 of the ED, provides two equally acceptable examples of a reference that the accountant should use on each page of the financial statements. Because the second example is more comprehensive and may be

clearer to the reader, we suggest that the Committee revise Paragraph 1.23 to read "The accountant should include a reference on each page of the financial statements, such as 'Solely for the information and use by the management of [name of entity] and is not intended to be and should not be used by anyone other than the specified party.'"

6. The second sentence of Paragraph 1.24, also on Page 14 of the ED, states that, if the client does not request third parties to return financial statements that were distributed improperly, "...the accountant should notify known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney." We believe that the accountant should make a reasonable effort to identify *all* third parties that obtained the financial statements. Therefore, we suggest that the Committee expand the second sentence of Paragraph 1.24 slightly to read "...the accountant should attempt to identify all third parties and notify those known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney."
7. Paragraph 2, also on Page 14 of the ED, states that "This Statement will be in effect for financial statements submitted on or after September 30, 2000. Earlier application is encouraged." We commend the Committee for establishing a specific effect date for this proposed Statement. Far too often, other AICPA committees merely indicate that a Statement is 'effective upon issuance.' By prescribing that a Statement is effective upon issuance, typically through publication in *The Journal of Accountancy*, these committees place an unnecessary burden on the accountant or auditor conducting an engagement who may not become immediately aware of the issuance of a Statement.
8. During our review of the ED, we noticed four additional instances in which we believe minor grammatical revisions would enhance the clarity and usefulness of the proposed Statement. First, at the end of Paragraph 1.03 and at the bottom of Page 8 of the ED, an asterisk, rather than a number, is used to identify a footnote. For consistency, we suggest that the Committee number this as Footnote 3, and renumber Footnotes 3 through 13, accordingly. Second, in the third sentence of Item 1., Appendix D, on Page 16 of the ED, for consistency within the document, we suggest that the Committee reverse the phrase "We will not review or audit..." to read "We will not audit or review..." Third, also in Appendix D, the first sentence of the fourth paragraph begins "Material departures from GAAP (or OCBOA) may..." For clarity, we suggest that the Committee define these acronyms the first time they are used in the illustrative engagement letter or letter to management, such as "Material departures from generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA) may..." Fourth, the parenthetical optional statement, which follows the fourth paragraph in Appendix D, contains the phrase "[include list of specified parties]." Although the ED continually refers to third parties, this parenthetical reference is to the client's management. Therefore, for clarity, we suggest that the Committee

COMMENT LETTER #28

Sherry Boothe:

I agree with the thrust of the proposed Statement on Standards for Accounting and Review Services, amending SARS1, Compilation and Review of Financial Statements.

Accountants, in the public sector and private sector, provide a variety of computing services and accounting services. These services were always intended to be purely accounting services and the CPA was not engaged and did not intend to provide any assurance on the accounting product. The amendment will apparently allow CPAs to provide these accounting services without the extended work, and liability, of complying with the compilation standards.

However, when these accounting services are provided to government, the resulting financial reports and/or computer reports become a public document. Often, these reports are presented at a public meeting of a board of directors or the public meeting of a finance committee. I suggest, by footnote, the statement recognize the public nature of governmental units. This public access privilege should not preclude an accountant from issuing financial statements under paragraph .21 of the proposed statement.

I hope the foregoing comments are beneficial to you.

Grover C. Austin, CPA
First Assistant Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 80804-9397

29



CASWELL & ASSOCIATES • CERTIFIED PUBLIC ACCOUNTANTS, P.C.

Brian A. Caswell
Maureen A. Caswell

436 MAIN STREET • P.O. BOX 27 • PHOENIX, NEW YORK 13135
TEL. (315) 695-2061 (800) 260-6519 FAX (315) 695-7027

Edward J. Lundy
Mary C. Bullis

May 15, 2000

Sherry Boothe
Audit and Attest Standards File 2000
AICPA
1211 Avenue of the Americas
New York New York 10036-8775

Dear Ms. Boothe:

I am writing this response to the exposure draft dated December 31, 1999, "Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements."

In general, I am in complete agreement with the exposure draft. I have one point that I wish to raise.

As background, I am currently a member of the Professional Ethics Executive Committee of the AICPA and I teach for the Foundation of Accounting Education for the NYSSCPA. I have written two textbooks for the FAE on compilation and review procedures. I have been concerned for several years regarding the definition of submission of financial statements. If you read the Compilation and Review Alert for the last two years, you will find that financial statements that are altered or amended in any material way by the outside CPA are considered submitted by that CPA. I submit to you an example:

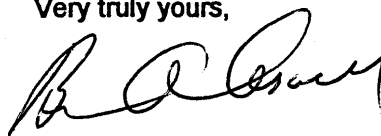
The outside CPA provides adjusting journal entries on a monthly basis to client "X". Client X inputs these adjusting entries into their bookkeeping system which we will call (for no specific reason) Quickbooks. The journal entries provided by the outside CPA do alter the trial balance in a material way. Financial statements are then printed by client X. Are these financial statements considered submitted by the CPA?

Based on my reading of the last two years of Compilation and Review Alerts, I believe that there is an argument that the financial statements are submitted by the CPA. However, in the exposure draft your definition of submission of financial statements simply states that the presentation to a client or a third party of financial statements "that the accountant has generated either manually or through the use of computer software." If this definition is read strictly, then submission of financial statements becomes much easier for the small firm. Only those financial statements actually generated by the CPA, either manually or through a computer system, would be considered submitted.

My question is what is the intention of the Accounting and Review Services Committee regarding this area? Am I reading too much into submission of financial statements, is the definition too simple, or will there be further guidance?

I approve of the definition in the exposure draft and would hope that a simple solution can be reached.

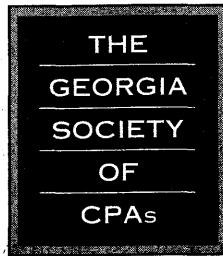
Very truly yours,

A handwritten signature in black ink, appearing to read "Brian A. Caswell". The signature is fluid and cursive, with the first name being the most prominent.

Brian A. Caswell CPA

BAC: cab

#30



May 18, 2000

Ms. Sherry Boothe
Audit and Attest Standards
File 2000, AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Boothe:

The Accounting & Auditing Committee of the Georgia Society of Certified Public Accountants is pleased to respond to the AICPA Accounting and Review Services Committee's (ARSC) Proposed Statement on Standards for Accounting and Review Services (SSARS) "Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*".

The concept of an "understanding based" unbundling of the "information" contained in a financial presentation and the "assurance" inherent in an accountant's report, which heretofore was required, is encouraging and long overdue. ARSC's continued reliance on the flawed "standards of submission" introduced with the issuance of SSARS No. 7 however should be seriously reconsidered by ARSC.

This letter includes our overall response to the underlying assumptions, which purport to support the draft's conclusions as well as some specific comments applicable to various paragraphs.

The Understanding with the Client is the Key

It was not by accident that the discussion of an "Understanding With the Entity" in the original SSARS No. 1, issued in 1978, preceded the "other" performance standards applicable to a compilation or a review.

That is, the understanding must (should) precede the service and the submission of financial statements. The second sentence of paragraph 8 of SSARS No. 1, as amended by SSARS No. 7 states that:

"The understanding should include a description of the nature and limitations of the services to be performed and a description of the report the accountant expects to render."

Surely, use of the phrase "expects to render" means that the accountant and his or her client must have come to "an understanding" before submission of financial statements can take place.

ARSC's redefinition of submission in paragraph 5 still assumes that "presenting to a client or third parties financial statements that the accountant has generated either manually or through the

use of computer software” is independent of the understanding with the client. The understanding is not an afterthought to be accomplished after submission.

Accordingly, paragraph 1 should clearly communicate that compilation and reviews are engagement driven. In other words, from a marketing perspective, is the client buying “information” and “assurance” or just information? Management’s assertion that the information is intended for “internal use only” must precede submission, not follow it!

Submission was originally intended to describe the accountant’s “reporting obligations,” not establish rules for when to or when not to report on the representations of management presented in the form of financial statements. That’s why there was only an implicit prohibition on plain paper financial statements.

Definitions, other than Submission ...

The definition of a third party assumes that the members of management (read client) are knowledgeable about the nature of the procedures applied (including other accounting services) and the basis of accounting or the assumptions used in the preparation of financial statements. This just isn’t so in many, if not most, client service engagements for small, smaller, and the smallest of clients. We can see ARSC having to amend this definition in future years. And, unfortunately some accountants will use the definition to justify not reporting when they know that members of management are not “knowledgeable about the nature of the procedures applied and the basis of accounting or assumptions used in the preparation of the financial statements.

Paragraph 10 quietly proclaims a “Declaration of Independence” from generally accepted accounting principles or another comprehensive basis of accounting. By adding the phrase “for the intended use of the financial statements” ARSC has set us free from GAAP or OCBOA. This is good. In fact, this is great! However, by definition the term “financial statement” is a presentation of financial data, ... , in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than

The plain paper presentations permitted by the proposed amendment may not be intended to comply with GAAP or OCBOA. Therefore, it might not be appropriate to title such presentations as balance sheets, statements of operations, etc. Viewed differently, it might not be appropriate to describe such presentations as financial statements, but as some form of “other presentation”. Also, please recall that a compilation is the presentation in the form of financial statements (linkage to GAAP and OCBOA) of information that is the representation of management without undertaking to express any assurance on those financial statements.

Reporting on the Financial Statements

We do not believe that ARSC’s intent was to authorize the issuance of unmodified compilation reports when “information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory for the intended use of the financial statements”.

However, it is not now clear that when engaged to report on compiled financial statements (or submit) that when we become aware of material departures from GAAP or OCBOA (by whatever means) that the accountant's report should be modified to disclose such departures.

Indemnification

The optional paragraph on indemnification in Appendix D might be rewritten to cover two thoughts:

1. Client indemnification
2. Third party reliance indemnification

Therefore, we suggest the following:

In view of the limitations and possible material departures from GAAP (or OCBOA) described above, you agree not to take, or assist in, any action seeking to hold us liable for damages due to any deficiency, except for gross negligence, in the financial statements.

In addition, you also agree to indemnify and hold us harmless from any liability and related legal costs arising from any third party use and reliance on the financial statements in contravention of the terms of this agreement.

We do not believe a client can indemnify us from gross negligence.

Conclusion

As implied at the beginning to this response, we very much support and applaud ARSC's efforts. However, we do wish and encourage the Committee to reconsider its thinking about the "standards of submission". We believe that this is why it has become apparent that there is difficulty and inconsistency within the profession regarding the applicability of Statements on Standards for Accounting and Review Services with respect to compilation engagements.

Sincerely,


Louis Gutberlet, CPA
Chair, Accounting & Auditing Committee

COMMENT LETTER #31

May 25, 2000

Diane Conant, Chair
AICPA Accounting and Review Services Committee
AICPA Audit and Attest Standards Division
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Diane:

The AICPA Peer Review Board (Board) thanks you for the opportunity to comment on the proposed amendment to the Statements on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*. The Board is an AICPA senior technical committee designated to issue professional standards and guidance in connection with the AICPA Peer Review Program.

The Board applauds the ARSC for taking this bold step in attempting to address the current needs of AICPA members and this complicated issue. However, the Board has significant concerns regarding some of the issues in this exposure draft and would like to present the following comments for your consideration:

General

Paragraph .01 – The Board agrees that if the proposals discussed in paragraph .01a are approved, that these methods of compiling financial statements should be subject to SSARS 1.

Paragraph .01a - The Board is concerned with the concept “in deciding whether the financial statements are, or reasonably might be, expected to be used by a third party, the accountant may rely on management’s representation without further inquiry...” Since Paragraph .10 indicates that the accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity, how does the accountant decide whether the f/s are expected to be used by a third party? Is this a part of the Understanding of the Entity (Paragraph .06), which does not require documentation by both parties? Under the proposed scenario shouldn’t both parties be expected to acknowledge the understanding in writing such as in the engagement letter (Appendix D)? The Board understands and appreciates the difficulties in establishing an engagement letter requirement without also allowing for the availability for the firm just to issue a letter to management (which you also propose).

Paragraph .05 – The Board agrees that the standards need to precisely define what constitutes the *submission of financial statements*, however, the Board believes that the definition included is still ambiguous, including what is intended by the word

“generated”. The Board appreciates the difficulty in addressing the matter, but it appears that the “submission”/ “push the button” issue still exists.

Paragraph .05 – The Board agrees with the definition of *third party* except that we believe that it is imperative to expand the definition of *management/controllership* to clarify how it is different than just having a *lack of independence*. We are aware that you are also addressing the controllership issue but the Board believes it would be beneficial to issue the guidance in the controllership and submission areas, in conjunction with any other proposed revisions to the standards.

Communication Options and Peer Review Requirements

Paragraph .12 – The Board almost unanimously agreed (19/21 members) that if this paragraph defines the matters to be included in the compilation report, then the proposed “engagement letter” and “letter to management” (“letters”) are actually just different types of compilation reports, as the essential elements in a report are also required to be present in these “letters”. It would appear that the ARSC agrees with this position based on the article in the April 2000 issue of *The Journal of Accountancy*. The Board believes these “letters” are in fact or substance, reports and this should be communicated in the final standards. This is an important distinction because the AICPA bylaws require members to practice in firms enrolled in peer review if the “...services performed are within the scope of the AICPA’s practice-monitoring program [such as SSARS] and the firm issues *reports* purporting to be in accordance with AICPA professional standards. The Board does not believe that the standards should discuss peer review but that the accountants’ reporting responsibilities should be very clear when performing these engagements.

In addition to the Board’s position that the “letters” are actually reports, it also almost unanimously agreed (20/21 members) that these engagements should be subject to peer review (as are other compilations performed under SSARS 1). There are many communication requirements in **Paragraphs .21-.22**, and if items required to be included in the “letters” were omitted, it would likely be considered a significant deficiency as defined in the peer review program. The Board defines significant deficiencies as those matters that are normally material to understanding the report or financial statements or represent critical procedures. In addition, these types of deficiencies would normally cause the engagement to be substandard (see AICPA Compilation and Review Alert – 1999/2000 page 33). The Board understands the risk reduction if an engagement truly is only being used for management purposes only. However, if these engagements were not covered by peer review, how would we know and be able to confidently state that the profession is performing these engagements in conformity with professional standards?

The “letters” methods are subject to SSARS 1 and the AICPA Code of Professional Conduct (the Code). Although the Board understands that there are other services subject to the Code and not peer review (such as tax and consulting services), the Board believes that it would be inconsistent for these accounting engagements to be subject to the Code and not peer review.

If the Proposed Revisions to SSARS 1 are Adopted

Paragraph .08 - The Board agrees that "The accountant should possess a level of knowledge of the accounting principles and practices....". The Board is concerned that if the proposal is adopted with a September 30, 2000 effective date, (with early application encouraged), that there will not be ample time for the 30,000 plus AICPA member firms that issue compilation statements to adequately integrate these concepts into their system of quality control. There are over 10,000 firms that currently only perform compilation engagements and it would be expected that this constituency would be the largest to adopt the new methods of compiling. Unfortunately, history has proven that a revision to SSARS can take years to be fully implemented. For example, when SSARS 7 became effective for reports issued after 12/15/93, it was *at least three years* (one peer review cycle) before the Board saw a significant reduction in the number of firms that had deficiencies in this area. The exposure to peer review was a contributing factor that enabled the firms to correct the deficiencies in those engagements. The Board appreciates the ARSC's attempts to communicate the proposals in this exposure draft to the members, but the Board does not believe that such an early implementation date is appropriate in order for the accountant to possess the required level of knowledge to enable him/her to compile and report and communicate appropriately. The Board recognizes the fact that professional standards are constantly changing and usually do not take peer review into consideration when determining effective dates. However, the Board believes that the nature of the revisions in this instance makes it necessary.

It is also important to note that if these standards are adopted, many member firms will be performing these engagements as their highest level of service and will be requesting or will be required to have an AICPA peer review (whether required by the AICPA bylaws and/or Boards of Accountancy licensing requirements, or just volunteering to do so). There would be numerous revisions necessary to the AICPA Peer Review Standards/Interpretations, guidance, letters and the other related materials to make peer review "fit" for these firms. In addition, a significant amount of time would be necessary before any reprogramming of the AICPA peer review computer system (used by the 41 state CPA societies administering the AICPA peer review program for 54 jurisdictions) could be completed. The effective dates discussed in the exposure draft do not allow for revisions to the peer review materials and reprogramming of the peer review computer system to be completed within the time frame necessary. For this and the reasons cited above, if adopted, the Board urges the ARSC to change the implementation date of these

standards to be no earlier than 12 months after they are approved and that early implementation should not be allowed.

If the ARSC adopts the revised standards without clarifying that the "letters" are deemed to be reports, due to the way the bylaws are currently written, it is the Board's understanding that firms performing such engagements as its highest level of service might not be required to enroll in an Institute-approved practice-monitoring program. The ARSC would in essence be setting peer review standards or at a minimum be

providing an exemption to peer review through its standards. The Board believes that this is an inappropriate position for the ARSC and would be unfortunate for the profession, as those performing these engagements would not have the opportunity to benefit from the educational process of peer review. Is this an issue the ARSC wants to accomplish with the proposed changes?

In addition, approximately 33 Boards of Accountancy (BOAs) currently require a firm to undergo peer review as a condition for licensure, and most of these BOAs have this requirement even if the firm only performs compilations. Although we realize that BOAs may change their requirements related to "reportless" compilations, we are concerned and don't believe that it would be appropriate that BOAs may have stricter peer review requirements than the AICPA. In addition, the Board believes that BOAs may be evaluating the exposure draft without understanding that these "reportless" compilations may NOT be subject to an AICPA peer review program review. The Board strongly believes that BOAs need to address this issue and that BOAs will need to decide specifically where these "reportless" compilations fall within their licensure and peer review requirements.

Once again, the Board appreciates the opportunity to comment on the exposure draft. Please feel free to call me if you would like to discuss any of the matters further. My phone number is 918/225-4216.

Sincerely,

Walter H. Webb
Chair
AICPA Peer Review Board

cc: Richard Miller -- AICPA, General Counsel & Secretary
Sheri Bango -- AICPA, Director - State Society & Regulatory Affairs



FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
TELEPHONE (850) 224-2727 • FAX (850) 222-8190

May 22, 2000

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft: Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*

Dear Ms. Boothe:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed and discussed the above referenced exposure draft ("ED"). The Committee has the following comments regarding this exposure draft.

- After a lengthy discussion, the Committee questioned the need for, or the benefit of, this amendment. Present standards allow a CPA to provide a compilation service that accomplishes the exact type of communication being defined within this ED without the added complications of additional correspondence or the necessity for recalling statements if the restrictions are not adhered to. By appropriately modifying the accountant's report, the practitioner can issue any type of statement that a client could possibly request.

This amendment, by placing additional requirements on the practitioner, appears to confuse and complicate the issue more than satisfy any need within the profession.

- In the Summary portion of the ED, reference is made to the advances in technology facing CPAs and the services provided to their clients. While the Committee agrees with this statement, we do not believe this statement addresses the real-life situations that CPAs face. Technology allows clients to transmit accounting files to the CPA; the CPA adjusts the information, and then transmits the information back to the client. Because of the submission of this data and that fact that the software used on both sides of the exchange allows for the printing of financial statements, the CPA has performed a compilation service. This exposure draft does not address this type of scenario.

The Committee recommends that the amendment be worded to ensure that this type of engagement performance is specifically addressed.

The changes or questions that the Committee had regarding the ED as it is currently presented are:

- Paragraph 1.05 defines *third party* as "all parties except for members of management." The Committee believes this definition is too restrictive. Stockholders, board members, or advisory committee members not actively engaged in the day to day operations of the business would all be classified as third parties under this definition. Due to the requirement that the client is not allowed to distribute the financial statements to any third party, management would be prohibited from presenting the information to the very individuals that would be the most concerned with the data.

The Committee recommends that the restriction should be to "internal use only" rather than using the third party designation. The 1995 ED regarding this subject was a better method of addressing the restrictions rather than the current ED. The Committee also recommends that the reference to be included on each page of the statements, required by paragraph 1.23, be changed to reflect the internal use restriction rather than the third party restriction.

- Committee members also expressed their concern regarding the requirements of Paragraph 1.24. This paragraph places a duty on the practitioner to ensure that third parties do not obtain the financial statements. This places the practitioner in an unnecessary adversarial position with the client that is unwarranted.

This also reinforces our basic position stated above questioning the need for this amendment at all.

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

Very Truly Yours,



Joy Gibson, CPA

Chairman,

FICPA Committee on Accounting Principles and Auditing Standards

Committee members coordinating this response:

Clifford Chaipel, CPA

Frank Mason, CPA

COMMENT LETTER # 33

Ms. Boothe,

The purpose of this e-mail is to inform you that I am in favor of the exposure draft - Amendment To Statement On Standards For Accounting And Review Services 1, Compilation And Review Of Financial Statements.

Please let me know if there is something further that I need to do in order to show my support of this exposure draft.

Sincerely,
Helaine S. Weissman, CPA

COMMENT LETTER # 34

I am generally in favor of the proposed amendments to SSARS 1. I do have a few reservations, however. I am concerned that many financial statements that are not intended for third party use will in end up in the hands of third parties. My concern is directed to our obligation to provide quality financial statements to the public, more than to the issue of an individual CPA's liability or failure to comply with standards. I do agree with Ms. Conant who states in her April 2000 Journal article that if a client does violate the terms of the restricted use understanding, the CPA " has a larger problem to deal with than complying with SSARS." Given that, where does it leave the public if there are poor quality financial statements out there? Even though the proposed amendment does not create a new level of attestation service, it does create a "new product" in the eyes of a third party who might come upon such a statement. If the AICPA will continue to educate the public about various levels of attestation and non-attestation financial statement services, we will probably be covered on that point.

A second concern lies with the redefinition of submission. It appears to me that the intent here is to remove most electronic submissions, especially interim financial statement submissions from the requirements of SSARS. They would be eliminated, as I read the ED, by excluding from a submission, the instance where a member makes substantial modifications to a client's data base which contains formatted financial statements. In an earlier communication directed to the Committee, I had suggested that the standards be amended to create a new exclusion to the definition of a financial statement. Such an exclusion would consist of a Financial Summary clearly identified as not intended to be a financial statement by the CPA associated with the submission. I think that also might have been used as a loophole by some members not wanting to conform to standards. As I attempt to view it from the perspective of the user public, I think they would be equally protected, or equally at risk under either approach. Either way we clearly need to educate the public, both corporately through the AICPA, and individually as member CPAs.

The ED raises some question. What will be the position of the Quality Review standard setters? Will the compilation, regardless of the method of communication or agreement with the client, continue to be considered an attest service? Will all compilations, including those where the submitter has opted to enter into a "restricted use" engagement letter, or issue a restricted use report or management letter, be subject to peer review. I would certainly hope so. Since all of the above are still subject to the performance standards, I would assume that they would be included in the peer reviewer's selection of engagements. If they are not, then a lower level of attest service will have been inadvertently created, and the public will suffer.

As stated earlier, with certain reservations, I approve of the direction taken by the committee, and therefore am in favor of the amendment. I thank the Committee members for their efforts and appreciate that they may have brought this long-standing issue closer to conclusion than it has been in a long time.

Sincerely,

Phil Sherman
Certified Public Accountant
P.O. Box 460596
Leeds, Utah
Telephone # (435) 879-0461
Fax # (435) 879-0462
Email<psherman@redrock.net>
Member # 25604

(I am recently retired from forty-one years of public auditing and accounting practice where I dealt mostly with small businesses. I am currently a Discussion-Leader with AICPA/PDI and a member of the Indiana and Utah state CPA societies.)



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

May 26, 2000

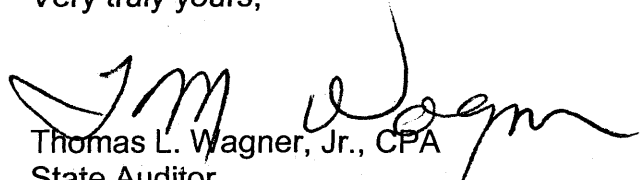
Ms. Sherry Boothe
Audit and Attest Standards, File 2200
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

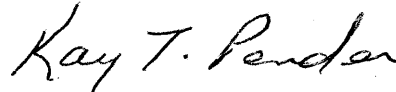
We have reviewed the Exposure Draft of "Proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements." We believe the proposed changes are acceptable.

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



Thomas L. Wagner, Jr., CPA
State Auditor



Kay T. Pender, CPA
Director of Research and Training

#36



Sherry Boothe,
 Audit and Attest Standards, File 2000
 AICPA, 1211 Ave. of the Americas
 New York, N.Y. 10036-8775

Re: Exposure Draft—Compilation if financial Statements.

I am disappointed to read in he April JofA of the exposure draft that will diminish. The value of service rendered by he smaller CPA practitioner. This action by the committee contradicts previous response not only by the practitioners, but many of the state societies Peer Review committees.

It reminds me of the individual who was served a tasteless broth prior to his procedure in the hospital. The next AM, the patient was required to have liquid placed in his system to facilitate test for intestinal diagnosis. When the patient had visitors he was questioned about his stay and condition. His response “if you come in this hospital for test and they bring you broth the night before, make sure you drink it because you are going to get it one way or the other”.

Current technology notwithstanding, CPA’s offer valuable services to the local businesses and can and do perform consulting services which include reviewing client prepared financials, The scenario presented in the article re adjusting the (or correcting) the classification of certain items, could be well handled on a consulting basis with the client changing their records.

There is no need to change the existing SARS. If it isn’t broke, why fix it?

Clinton Romig
 Clinton Romig
 Member #726985

May 23,2000

COMMENT LETTER #37

TO: AICPA - Accounting and Review Services Committee
Sbooth@aicpa.org

FROM: J. D. Hudspeth, CPA

RE: Exposure Draft - "A New Approach to COMPILATIONS"

DATE: 5/31/2000

While I would concede that this proposal is a small step in the right direction, I would also assert that it is still fatally flawed. It does not address the reality of the present market for accounting services, much less the future market.

The only appropriate "trigger", in my opinion, is an "engagement to compile". If the users of our client's financials want assurance, be it audit, review, or compilation by a CPA, let them ask for it and let our clients engage us to do it. Arbitrary "triggers" serve the short term interests of short sighted Certified Public Accountants and the long-term interests of alternative services and products. Such "triggers" serve neither the public interest, the profession, nor the long-term interests of individual Certified Public Accountants.

Sincerely,

J. D. Hudspeth, CPA

COMMENT LETTER #38



May 31, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to have the opportunity to comment on the “Proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements”. 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 cannot see the benefit of this exposure draft, assuming that the intent is to reduce the accountant’s cost of providing this service. Paragraph 21 seems to simply replace a required written report with a required written understanding. None of the options in paragraph 21 would seem to result in any net savings in the accountant’s time or effort.

Paragraph 21 could result in net savings in a case where the accountant knows before starting the engagement that there are material departures from GAAP or an OCBOA, but the accountant does not want to take the time to perform the steps required by paragraphs 10 and 11. In this case, it may be less time consuming to enter into the written understanding than conduct the steps proscribed in paragraphs 10 and 11.

We recommend that you consider whether paragraphs 21 should be made applicable to statements that are not expected to be used by a third party and are expected to contain departures from GAAP or an OCBOA.

SPECIFIC CONSIDERATIONS

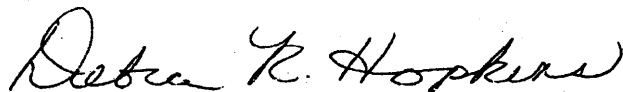
Paragraph .05 defines financial statements as “A presentation...intended to communicate...in accordance with...GAAP or a comprehensive basis of accounting other than GAAP.” This would seem to allow an accountant to not follow the compilation standards when the client instructs the accountant to intentionally not apply GAAP or an OCBOA to certain transactions, for example depreciation or leases. We believe that the definition needs to be revised.

The illustrative engagement letter in Appendix D contains an optional paragraph in which specified users can be identified. This would seem to be inconsistent with the purpose of this letter, which is internal use only statements. We recommend that it be made clearer that the intended parties cannot be third parties.

We recommend that the reference required by paragraph 23 also state that there may be material departures from GAAP or an OCBOA. Further, applying the reference required by paragraph 23 is not practical with some financial statement software used by clients. In such cases, the statements will need to be printed first and then the reference will have to be manually typed or stamped on the printed statements. You may wish to acknowledge this in a note to paragraph 23.

The Committee would be pleased to discuss our comments and recommendations with you at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Debra R. Hopkins".

Debra R. Hopkins, CPA
Chair, Audit and Assurance Services Committee
Illinois CPA Society

APPENDIX A

ILLINOIS CPA SOCIETY AUDIT AND ASSURANCE SERVICES COMMITTEE ORGANIZATIONAL AND OPERATING PROCEDURES 2000

The Audit and Assurance Services Committee of the Illinois CPA Society (the Committee) is composed of nineteen technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to twenty 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 a subcommittee of its members to study and discuss fully exposure documents proposing additions to or revisions of professional 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.

405 Northfield Avenue
West Orange, New Jersey 07052
(973) 736-3333 Fax: (973) 736-3367, 8786
Insolvency and Litigation Fax: (973) 736-9219

Woodland Falls Corporate Park
200 Lake Drive East, Suite 100
Cherry Hill, NJ 08002
(856) 482-7842 Fax: (856) 482-2280

May 26, 2000

Sherry Boothe
Audit Attest Services
American Institute of CPAs
File 2000
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Comments on Exposure Draft – Proposed Statement on Standards for Accounting and Review Services, Amendment to SSARS 1 File No. 2000

Dear Sherry:

This letter constitutes my response to the above indicated Exposure Draft.

As a former member of the Accounting and Review Services Committee (“ARSC”), I am generally in agreement with the need for the proposed revisions, however, I do not believe that the Exposure Draft has completely dealt with some of the present problems related to Compilation Engagements. Specifically, as discussed in more detail in my subsequent comments in this letter, I believe that ARSC should refine the following: 1) the definition of submission. I believe the definition should clearly and consistently be engagement driven; 2) the communication with the client when the compiled financial statements are not expected to be used by a third party or when the accountant is aware or reasonably should become aware of material errors.

My specific comments are as follows:

◆ **Summary**

The following are specific comments related to the Summary:

1. The words “intended for management’s use” in the fifth line, first paragraph, should be eliminated.

Non public entities obviously look to their accountants for assistance in preparation of financial statements, whether intended for management’s use only or for third party use.

2. I suggest that the language in the first sentence of third paragraph of the summary be revised to say “if the accountant has been engaged to submit unaudited financial statements...”

As indicated in my comment above and in more detail in my comments below, I believe that the definition of "submission of financial statements" should be engagement driven.

3. I believe that the words "provide a quality service" in the last paragraph should be eliminated.

I don't believe it's appropriate to imply that a compilation is considered to be "a quality service."

◆ Definitions

1. The definition of submission of financial statements should be revised as follows: **being engaged to present** to a client or third parties...

I believe it is essential that the definition of "submission of financial statements" be **engagement driven**. As discussed in the summary, I agree that it has become the fact that there is difficulty and inconsistency within the profession regarding the applicability of SSARS with respect to compilation engagements. In my judgement the biggest area of abuse is related to the current definition of "submission of financial statements." We need to get away from the current dilemma regarding "who pushed the button" and recognize that unless a client engages a CPA to present or submit financial statements, the accountant should not be required to issue a compilation report, merely, for example, if they have proposed material adjustments and/or done something significant to the clients computer system to alter the financial statements or data.

2. The definition of financial statements should be modified to eliminate the words "including accompanying notes".

Implying that the financial statements include accompanying notes is inconsistent with paragraphs 17 to 19.

◆ Understanding with the Entity

I suggest the following modifications to the Exposure Draft regarding the requirement that the accountant inform the appropriate level of management of material errors:

1. I suggest a footnote be added to clarify that in an engagement to compile financial statements that are not expected to be used by a third party, the accountant generally may not become aware of material errors.
2. I suggest a footnote or exhibit giving examples of how to communicate material errors and the type of errors that should be communicated. The footnote or exhibit should explain how such material errors should be communicated, including, for example, if the accountant is aware that there is no income tax provision, normal year-end adjustments have not been made in interim financial statements and inventory has not been adjusted to an actual or computed amount.



◆ Compilation Performance Requirements

I suggest that the wording of the last sentence of paragraph .08 be revised to read as follows: "the accountant may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, or **accountants** knowledgeable about the **accounting principles and practices of the industry.**"

◆ Appendix D - Compilation of Financial Statements Not Intended for Third Party Use - Illustrative Engagement Letter or Letter of Management.

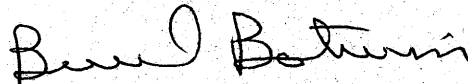
The words "these financial statements have been designed to meet your needs in managing your business. Accordingly" should be eliminated. This paragraph should then read, "Based upon discussions with you, these statements are for management's use only and are not intended for third party use."

To imply that these statements have been designed to meet management's needs in managing the business may not be accurate in many instances.

I would be pleased to discuss any questions you or the committee may have and/or to clarify the above comments.

Very truly yours,

BEDERSON & COMPANY LLP



Bruce S. Botwin, CPA
Partner

BSB:kew

H:\Doc\BSB\CORRES\Boothe, Sherry 022100.doc



#40

Robert S. Cheskes, CPA, P.C.
Certified Public Accountant

32 Bonaire Drive
Dix Hills, NY 11746-6502

Office & Fax #
(631) 586-6525

E-MAIL rsccpa@nysscpa.org

PAGER: (516) 836-0061

Via the Internet to sboothe@aicpa.org

June 6, 2000

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036

Re: Exposure Draft on Amendment to SSARS # 1

Dear Sir or Madam:

I have read the exposure draft dated December 31, 1999, and as an accounting and auditing practitioner who specializes in quality control, have the following comments:

- 1 The standards need to be amended to reflect the changing environment since the original introduction of SSARS in December 1978.
- 2 The accountant's compilation report states that "The financial statements have not been audited or review and, according, the accountant does not express an opinion or any other form of assurance on them." Therefore, since no assurance is expressed on a compilation, there should be fewer restrictions required by professional standards on a statement prepared for internal use only.
- 3 The present SSARS standards require that an understanding be reached with a client, preferably in writing. To require that an engagement letter be obtained for the internal use only statement seems harsh. The need for a written engagement letter or a "contract" as called by the AICPA is based upon many factors including the present day legal environment. Written engagement letters should be required for all SSARS engagements including reviews and compilations as a means to limit potential legal liability and assure that the client realizes the level of service being provided by the CPA.

June 6, 2000


- 4 Present standards require that each page of the financials should include a reference such as " See Accountant's Compilation (Review) Report." A similar footer or header stating "Restricted for Management (Internal) Use Only – Not for External Distribution Only" must be mandated so the reader will clearly realize the nature of the statements. Consideration should also be given to adding a comment that these statements "May be Incomplete."

The above represent my response to the exposure draft. However, I do have another suggestion for the Committee to consider based upon comments made by tax professionals.

Many engagements are tax directed in that the accountant is engaged to write up the books and only prepare the required federal, state and local income tax returns. The client will meet with the CPA to finalize the numbers and a tax return (s) only is prepared. The client will ask the CPA to send him some type of information so he can review his alternatives prior to the meeting, so intelligent informed decisions can be made with out wasting time. I therefore suggest that Interpretation # 17 be amended to allow the use of a "Draft-Subject to Change" or similar language described in item # 4 above stamp without the need to issue final financials, as the engagement never required them. I am amazed that in response to this comment, a member of the AICPA's Staff stated, "Give them a draft tax return"

I hope that these comments will enable the AICPA to reach a prompt decision and be able to issue a final amendment to SSARS as soon as possible.

Yours truly,


Robert S. Cheskes, CPA

COMMENT LETTER #41

Dear Ms. Boothe:

I am behind in my reading and just finished the April 2000 JofA. It seems from the article that cosmetic changes are being made and there is so substantive changes. A compilation report can be issued without reflecting all the departures from GAAP it is so stated in the report. Why do we have to dance around the same thing again?

Also why was the article placed under the auditing heading? Are we not attempting to show that a review and compilation are not audits.

Stanley Balsky CPA

COMMENT LETTER #42

June 5, 2000

AICPA
1211 Avenue of Americas
New York, NY 10036-8775

Attention: Sherry Boothe
Audit and Attest Standards, File 2000

RE: PROPOSED STATEMENT ON STANDARDS
FOR ACCOUNTING AND REVIEW STANDARDS
AMENDMENT TO SSARS 1

Dear Ms. Boothe:

I have read the proposed changes and feel the AICPA should modify the reporting requirements to include the following changes:

1. The report should specifically identify omitted corrections which would be required to make the financial statements be in conformity with the financial reporting basis that the statements have been prepared under (GAAP or OCBOA as the case may be).
2. In lieu of the standard footing "See Accountant's Compilation Report", the footing should indicate that the financial statements contain errors and omissions. "Report Contains Errors and Omissions".

Thank you for considering this suggestion.

Very truly yours,

RICHARD E. NOYES CPA, PC

Richard E. Noyes CPA

#43

Vine Dahlen & Co. PLLC

CERTIFIED PUBLIC ACCOUNTANTS

May 31, 2000

Diane Conant, Chair
AICPA Accounting and Review Services Committee
AICPA Audit and Attest Standards Division
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Conant:

I would like to comment on the proposed amendment to the Statements on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*. This is my fourth year as a member of the AICPA Peer Review Board (Board). I have chaired the Standards Task Force of the Peer Review Board for the past two years. I also chaired the Peer Review Board's task force that was responsible for the initial consideration of items that became the exposure draft, *Proposed Revision to the AICPA Standards for Performing and Reporting on Peer Reviews*, that was issued May 17, 1999.

One of the objectives of the *Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews* was to streamline the process while still maintaining the educational value for reviewed firms and yet not adversely affect the public interest. The original exposure draft would have eliminated the technical review, report acceptance body consideration and committee-imposed corrective actions for firms whose highest level of service was a compilation. This new type of review is called a "report review". The Board received 295 comment letters. Twenty-eight of those letters were from state society administering entities. Two of that group seemed to approve the concept and the remaining 26 were fairly strongly opposed to eliminating technical review, committee acceptance and follow-up actions. We received 10 responses from state boards of accountancy or other government regulators. Two had no comments, one agreed that the proposals were adequate and the remaining seven were opposed. Several of the state boards mentioned that the revised standards would not meet the licensing requirements in their state. Based on the comments the Board received, significant changes were made before adoption of the standards. The final standards require technical review of all report reviews, committee consideration when the technical reviewer feels there are significant comments and the ability of the committee to impose corrective action that it feels is appropriate.

AICPA Accounting and Review Services Committee
Diane Conant, Chair
May 31, 2000

Paragraph .21

It is unclear from your exposure draft whether the proposed engagement letter and letter to management are "reports". If they are not reports, these engagements may not be subject to peer review. The AICPA bylaws require firms to enroll in peer review if "services performed are within the scope of the AICPA's practice-monitoring program and the firm issues reports". The ARSC should make clear in their final standards that the engagement letter and letter to management are types of reports. Based on the experience I had with the *Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews*, it is clear to me that the state society administering entities and the boards of accountancy would be uncomfortable if these types of engagements are not subject to peer review. We must be able to include these engagements within the scope of peer review to determine if they are in accordance with professional standards.

The Washington State Board of Accountancy has issued regulations requiring that "Experience shall be in a CPA firm that participates in a board approved peer or quality review of its accounting or auditing practice," in order for an applicant to receive their initial license to practice public accounting. Should firms whose highest level of service is a compilation with an engagement letter or letter to management somehow not be required to have an AICPA peer review, it would reduce the number of firms where new graduates could meet their experience requirement.

The ARSC responded to the Peer Review Boards *Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews* on August 10, 1999. In your letter you stated that "The proposed report review appears to discount the value of compilations as a level of service. Compilations are still a professional service and a preferred option of reporting for many small businesses." It is my personal opinion that your exposure draft further discounts the value of compilations. Under the current standards, the report may be modified for departures from generally accepted accounting principles or another comprehensive basis of accounting. I am unsure what the expected benefit would be. It seems that the engagement letter or letter to management may be more burdensome than simply issuing a report.

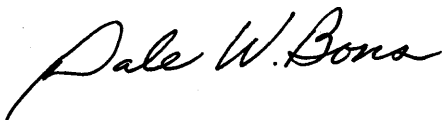
AICPA Accounting and Review Services Committee
Diane Conant, Chair
May 31, 2000

Paragraph 2.

If the proposals are adopted, the effective date does not allow sufficient time for either education of members or revisions to the peer review program. Implementation should be delayed for at least a year after adoption with early implementation should not be allowed.

I hope the ARSC will carefully review the comment letters they receive. After the Peer Review Board made substantive changes to our exposure draft last year, I could not believe how many members expressed their appreciation. They hadn't believed that their cumulative comments could have resulted in a change. They thought that the Board had already made its decision and were surprised when we were so responsive. Thank you for the opportunity to comment.

Sincerely,



Dale W. Bonn, CPA
VINE DAHLEN & CO. PLLC

DWB:kc



#44

June 2, 2000

Sherry Boothe
Audit and Attest Standards
File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft – Amendment to Statement on Standards for
Accounting and Review Services 1, *Compilation and Review of
Financial Statements*

Dear Ms. Boothe:

I have reviewed the above exposure draft of an amendment to SSARS 1. I generally agree with the recitation of the issues in the second paragraph of the *Why Issued* section of the document. I commend the Committee on its efforts. However, I think the problem is slightly different, and the proposed solution misses the mark. The problem is with *interim* financial statements; that's where the solution should be. For reasons discussed below, I also disagree with the provisions to require the accountant to police the use of the statements.

Problem Statement

The problem is that small, nonpublic entities need timely information, produced economically, on an interim basis. (An analogy I have heard used is to the "soft close" that public companies do on a monthly basis.) However, it is difficult to comply with GAAP (particularly APB 28) and get timely information, produced economically. Companies who prepare their own interim statements do it by not complying with every technical aspect of GAAP; i.e., the "soft close". External accountants who assist small businesses should be able to provide the same service. The justification is a cost/benefit one, sacrificing some reliability for timeliness and economy.

The primary need for such timely information is on a monthly or quarterly basis. At year end, the importance of reliability increases, while the importance of timeliness and economy lessen. If the users of the statements have been receiving routine, interim statements, they have been kept abreast of the entity's operations and financial position on an ongoing basis. Therefore, timeliness at year end is not as important to them. From the point of view of economy, costs that may not be warranted numerous times during the year should be justified on a once-a-year basis.

Producing annual financial statements on a comprehensive basis of accounting would allow for a "true up." Users would, at least annually, get information that has been subjected to the discipline of adjustments to a specified basis (GAAP or OCBOA). Larger companies that produce their own interim statements normally have the discipline of an audit, or possibly a review, at year end. Very small companies should be subject to that same discipline at least annually.

Therefore, I recommend that the proposed exemption from SSARS 1 be generally limited to interim financial statements.

Warner Centre, Suite 400

332 Fifth Avenue

Pittsburgh, PA 15222-2413

Phone: (412) 281-2501

Fax: (412) 471-1996

www.alpern.com

Members

American and Pennsylvania

Institutes of

Certified Public

Accountants

A Professional Corporation

Limitation on Third Party Use

The proposed statement would limit the use of the statements to those within the entity, management and others. It would put the external accountant in the position of a police officer, monitoring for potential use of the statements by third parties. I do not believe that this is either desirable or warranted.

There will be inevitable pressure to submit the financial statements to the lenders. Such a limitation will put the accountant at odds both with his or her client, and with the client's lenders. I think it will be very difficult for practitioners to understand the rationale for the limitation, let alone explain it to clients and others. It is a provision that is bound to fail, and cause problems for all parties. If the only way for the Committee to be comfortable with the exemption is with this limitation, then I think the Committee should abandon the project.

Finally, the Jenkins Committee (Special Committee on Financial Reporting) routinely heard from users, including creditors, that they want more of the same information used by management. Assuming that the financial statements are relevant to management, then the same information should be relevant to lenders. If the recommendation to limit the proposed exemption to interim statements were adopted, then users would receive, at a minimum, compiled financial statements on an annual basis. That would provide the needed "true up" and accountability.

I recommend that the provision requiring the accountant to enforce a limitation on the use of the financial statements be deleted.

Goals of Exemption

The following should be goals of any exemption from SSARS:

- Eliminate the need for tailoring reports. In practice, interim compilation reports currently often *incorrectly* describe the periods covered, the names of the statements, the basis of accounting, and even, occasionally, the client name. (This occurs because of the limited time and energy devoted to review for compliance with technical standards.)
- Eliminate the need for providing a description of all departures from the comprehensive basis of accounting used. This seems appropriate only for interims.
- Concentrate the efforts of the accountant on providing meaningful information for users, rather than on compliance with technical standards.
- Eliminate the need for a high-level technical review for compliance with reporting standards.
- Provide information to users in a timely and efficient manner.

I believe that the proposed exemption meets all of these goals, but at too high a price. By modifying the exemption to have it apply to interims only, and removing the limitation on use, we can meet these goals in an appropriate way. I think that these goals could be met in other ways, as well.

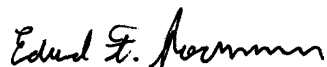
Ms. Sherry Boothe
June 2, 2000
Page 3

For example, it should be possible to generate a standardized legend for statements that would not require tailoring, but would warn users of the limitations of the statements.

Finally, if the ED is adopted without change, I believe that many firms will not adopt the exemption. They will not want to put themselves in the position of being enforcers as to the user limitation. Further, many of those that do adopt will limit the application to interim financial statements. I also suspect that firms will not do much to police the "internal use" requirement.

I would be glad to discuss this further with the Committee at your convenience.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Edward F. Rockman".

Edward F. Rockman

#45

June 6, 2000

Sherry Booth
Audit & Attest Standards
File 2000 AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Amendment to SSARS 1

The Personal Financial Planning Executive Committee welcomes this opportunity to comment on the 12-31-99 Exposure Draft of the Amendments to SSARS 1. The amendment is directed primarily at business financial statements and its wording appears appropriate for that context. However, our committee believes that the amendment will leave unanswered questions about the accountant's reporting responsibility for personal financial statements included in a personal financial plan. We were unable to find a way to address those questions by revising the amendment so believe that revision of SSARS 6 (which presently covers this topic) will be necessary to conform it with any revised SSARS 1.

Accordingly, after the SSARS 1 amendment is finalized, we suggest that a PFP Division subgroup work with the Accounting & Review Services Committee to develop conforming amendments to SSARS 6.

Sincerely,

Dirk Edwards
Robert W. Batty C.P.A., P.F.S.
Dirk Edwards
Chair
PFP Executive Committee

#46

June 6, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
AICPA
1121 Avenue of the Americas
New York, NY 10036-8775

RE: NYSSCPA Comments on Proposed Amendments to SSARS No. 1

Dear Ms. Boothe:

We are enclosing five copies of the NYSSCPA's comments on the proposed amendment to Statement On Accounting And Review Services 1, Compilation And Review of Financial Statements. These comments were prepared by a special task assembled to comment on the proposal and were finally approved by the Society's Board of Directors on June 3.

If you have any questions or comments, please contact James A. Woehlke at (212) 719-8347 or jwoehlke@nysscpa.org.

Sincerely,



P. Gerard Sokolski, CPA
President



Brian A. Caswell, CPA
Chair, Accounting and Auditing
Oversight Committee and
Management Use Only
Statement Task Force

CC: Diane S. Conant, CPA
Arleen R. Thomas, CPA
NYSSCPA Board of Directors
MUOS Task Force

new york state society of

NYSSCPA

certified public accountants

530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

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

COMMENTS ON

**PROPOSED STATEMENT ON STANDARDS
FOR ACCOUNTING AND REVIEW SERVICES**

**AMENDMENT TO STATEMENT ON ACCOUNTING AND REVIEW SERVICES 1,
COMPILATION AND REVIEW OF FINANCIAL STATEMENTS**

June 6, 2000

NYSSCPA
2000-2001 Board of Directors

P. Gerard Sokolski, *President*
Nancy Newman-Limata, *President-elect*
David L. Evans, Vice President
Jo Ann Golden, Vice President
John J. Kearney, Vice President
Thomas E. Riley, Vice President
Sharon Sabba Fierstein, Secretary
Ronald Benjamin, Treasurer
Marshall C. Asche
Arthur Bloom
Robert S. Cheskes
Andrew M. Eassa
Franklin H. Federmann
Angelo J. Gallo
David H. Gerson
Louis C. Grassi
G. William Hatfield
Michael J. Keenan
James N. Kinney

Frank L. Kurre
Stephen F. Langowski
Carol C. Lapidus
Thomas O. Linder
Vincent J. Love
Kevin J. McCoy
Kevin J. Monacelli
Sandra A. Napoleon-Hudson
Ian M. Nelson
Thomas J. Novak
Raymond M. Norwicki
Barbara Evelyn Ostrander
Edward J. Torres
Beth I. Van Bladel
Alan E. Weiner
William A. Zeronda
Raynard Zollo
Louis Grumet, *ex officio*

NYSSCPA
Management Use Only Task Force

Brian A. Caswell, *Chairperson*
David L. Evans
George T. Foundotos
Fred R. Goldstein
Jeffrey R. Hoops

John J. Kearney
Janet LaBarbera
Thomas O. Linder
Frank W. Sluter

Staff

William Prue, CPA, Manager, Technical Services Division
James A. Woehlke, Counsel and Director, Technical Services Division

NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Comments On Proposed Statement On Standards For Accounting And Review Services Amendment To Statement On Accounting And Review Services 1, Compilation And Review Of Financial Statements

June 6, 2000

The New York State Society of Certified Public Accountants (the "Society") would like to thank the AICPA Accounting and Review Services Committee (the "Committee") for this opportunity to comment on the Proposed Amendment to Statement on Standards For Accounting and Review Services 1, *Compilation and Review of Financial Statements*, dated December 31, 1999 (the "Proposal"). The foregoing comments were the result of the work and deliberations of the Society's Management Use Only Task Force (the "Task Force") after review and approval by the Society's full Board of Directors.

Overall Comment

The Society feels strongly that, when a CPA prepares and submits financial information¹ on "plain paper" to clients for the exclusive use of the client and its management, few or no authoritative pronouncements are necessary. Each client has different needs depending on numerous factors such as the sophistication of its internal staff, its industry, the nature of its economic activities, etc. The servicing CPA is in the best position to evaluate the form and content of the financial information that will best meet the needs of the client. This approach of minimizing the professional constraints on the CPA in delivering these services will foster an environment where the CPA can tailor his or her services, and the form and content of any communication, to the specific

¹ Instead of defining "financial information" for this overall comment, the Society believes it is more desirable to broaden the scope of the types of data analyses that can be given to a client for internal use.

informational needs of the client. The CPA can then apply the value-added analytical skills that are at the core of his or her education, training and experience.

The Society believes that the authoritative literature only needs to include two requirements relating to the delivery of these services — a written understanding with the client concerning the limitations on the use of any financial information, and the requirement that the financial information, when prepared by the CPA, not be displayed on the CPA's stationery and that it include a title or legend restricting its use.

Written Understanding

The authoritative literature relating to a written understanding with the client should not include any required content or form other than an acknowledgement of the restricted use of the plain paper financial information and recognition that they are prepared for individuals who have a greater understanding of the client's operations. The pronouncement should only be advisory and allow the CPA to design the letter to cover multiple engagements over a disclosed time period.

Restrictive Notification

The restrictive notification on the face of the plain paper financial information should be clear and in plain and simple English. We suggest a title or legend that contains the following language: "Restricted To Management [or Internal] Use Only — Not For External Distribution."

Consequently, there will be no confusion over whether a financial presentation, chart, graph or textual disclosure is or is not a "financial statement."

Summary

Other than allowing plain paper, internal use only, financial information, the authoritative literature should be as unobtrusive as possible leaving the form and content of the financial data given to the client to the experience and judgment of the CPA. The only two authoritative requirements should relate to the understanding with the client and the restrictive legend.

Other Comments

Should the Committee decide to issue the Proposal in its original form, we have the following comments.

Paragraph 1.05 — Definition of “Submission of a financial statement” and “Financial Statement”

The Proposal defines a financial statement in the traditional way as included in the other authoritative accounting literature. However, many smaller clients without full-time or sophisticated accounting personnel typically engage CPA firms to maintain their accounting records, prepare monthly reports and prepare financial analyses throughout the year. Also, the types of financial presentations available today have greatly changed from the past obliterating the distinctions between financial statements and financial analyses.

To avoid a definitional problem we recommend the addition of the following language to the Proposal:

“Analytical or other financial presentations of historical financial information developed as by-products of accounting or tax services are not considered to be financial statements or the submission of financial statements for the purposes of Statements of Standards on Accounting and Review Services.”

Notes to management-use-only financial statements

The Task Force considered whether the Proposal should prohibit the inclusion of any note disclosure in the financial statements provided to the client for management only use. The Task Force concluded that the CPA's service to a client, relating to management-use-only financial statements, should be directed towards what the client wants and needs and should not be dictated by the authoritative literature. The final SSARS on this issue should not prohibit the inclusion of notes to the management-use-only financial statements.

Paragraph 1.21 Communication of the scope of the engagement

Paragraph 1.21 of the Proposal requires either:

- 1) The performance of a compilation or,
- 2) Obtaining a client-approved, signed engagement letter, or sending a letter to management documenting an understanding of the services to be provided and the limitation on the use of the financial statements ("Management Letter").

A minority of the Task Force believes that the Management Letter option should not be included, or in the alternative, the final SSARS should express a preference for the client-approved engagement letter. The Society, however, agrees with the language in the Proposal that leaves the option of which method to use to the judgment of the CPA.

Appendix D — Illustrative Engagement Letter

Appendix D to the Proposal is an illustrative engagement letter for a compilation of financial statements not intended for third-party use. The illustrative letter includes a "hold harmless" clause that is designated as optional. While questions arose during the Task Force's deliberations concerning whether the inclusion of a "hold harmless" provision should remain optional, the Society believes it should

and that the client and its CPA should be free to determine the exact terms of the engagement.

The Task Force and Society greatly appreciates this opportunity to comment on the Proposal, and hope that their recommendations are helpful to the Committee.

COMMENT LETTER #47

H. James Boyes, C.P.A.
David J. Wright, C.P.A.
Mark A. Pittman, C.P.A.
Thomas G. Mulvihill,
C.P.A.
Charles R. Miller,
C.P.A.
Michael J. Mihelich,
C.P.A.
Craig A. Mathiesen,
C.P.A.
Charles Kaye, C.P.A.
Sheldon Pringle, C.P.A.
Edwin J. Schiff, C.P.A.
Linda J. Lutsic, C.P.A.

28552 Orchard Lake Rd.
P.O. Box 2719
Farmington Hills, Michigan 48333-2719
(248) 855-8100 FAX (248) 855-4387
WEBSITE www.bwpc.com



Boyes, Wright, Pittman & Co., P.C.
Certified Public Accountants and Consultants

Paula B. Mulvihill, C.P.A.
Gary Tencer, C.P.A.
Michael C. Tituskin, C.P.A.
Anthony J. Di Vito, C.P.A.
Jeffrey L. Mathiesen,
C.P.A.
Patrick M. Heffernan,
C.P.A.
Julie A. Walton, C.P.A.
Dawn M. Bates, C.P.A.
James L. Hargett, C.P.A.
Tia L. Bonkowski, C.P.A.
Tracey L. Yankee, C.P.A.

June 5, 2000

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Amendment To Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements (Exposure Draft)

Dear Ms. Boothe:

We appreciate the opportunity to comment on the exposure draft for the proposed amendment to the "Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements". Our mid-sized public accounting firm located in a suburb of Detroit, Michigan services many small, non-public clients. Since many of our clients do not expect their financial statements to be used by a third party, our firm has struggled with justifying to them the compilation requirements placed on us by our professional standards.

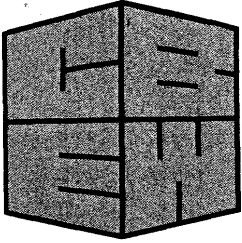
Paragraph 21 will require the accountant to obtain an engagement letter signed by management or a letter to management documenting an understanding of the services to be performed and the limitations on the use of the financial statements. We believe the accountant must establish an understanding with the entity, preferably in writing. However, we believe there should be the flexibility of allowing documentation of an oral understanding, similar to oral understandings used when performing a compilation engagement expected to be used by a third party.

We support the proposed amendments to SSARS 1 and believe they will improve communications and relationships between CPA's and their clients.

Sincerely,

BOYES, WRIGHT, PITTMAN & CO., P.C.

Paula B. Mulvihill,
Certified Public Accountant
Manager, Client Service Department



**CALL,
BARRICK,
ETHRIDGE,
WEBB & CO., LLP**
CERTIFIED PUBLIC ACCOUNTANTS

48

RON H. BARRICK, CPA
DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
JERRY PARSONS, CPA
JANE FRAZIER, CPA

MICHELLE WRIGHT, CPA
TIM W. NORDEN, CPA
CHARLES E. CROOKS, CPA

206 N. HARRISON • P.O. BOX 790 • CUSHING, OKLAHOMA 74023 • 918-225-4216 • FAX 918-225-4315

June 6, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Sherry:

Thank you for the opportunity to comment on the proposed amendment to the Statements on Standards for Accounting and Review Services (SSARS) Number 1, *Compilation and Review of Financial Statements*.

I am philosophically opposed to the issuance of "plain paper" financial statements under any circumstances and I believe that most AICPA members oppose "plain paper" as was determined by the public hearing held by ARSC in August 1997. However, aside from that, as a peer reviewer I have performed many on-site and off-site peer reviews and I consistently see areas of concern related to compilation engagements that I don't believe will be alleviated with the issuance of these proposed standards. I realize that SSARS standards were written before technology had such an influence on accounting practices and that the standards probably need to be amended to be responsive to the needs of our members and the public. Yet this amendment does not adequately address the "submission," "push the button" or "controllership" issues unless the financial statements happen to be intended for internal use only. There are many entities that provide or may wish to provide interim financial statements to banks or other third parties who must still meet the ambiguous requirements of SSARS in this area. Unless they opt for "plain paper-management use only" the provisions of these proposed standards do not provide any answers. This is just one reason that I don't believe these proposed standards should be adopted. However, the proposed standards, if adopted, should require that the client acknowledge in writing their understanding of the limitations of the engagement. I personally believe that the accountant has as much responsibility to management as it does to a third party when it provides compiled financial information in whatever form. That is why I believe that a compilation report is important and necessary in all cases.

Sherry Boothe

June 6, 2000

Page 2

In February 1998 ARSC concluded that a major educational effort was needed regarding SSARS. I am very concerned that the proposed effective date of September 30, 2000 (with early application encouraged) will not provide ample time for AICPA member firms to adequately integrate these concepts into their system of quality control. As a peer reviewer I can attest to the fact that firms that only perform compilation engagements as their highest level of service do not consistently educate themselves on changes in professional standards. These firms would probably be the first to adopt this new method of presentation. For years after the effective date of SSARS #7 peer reviewers have noted that such firms had still not conformed the language of their compilation reports. I believe that firms will all of a sudden think they can now prepare plain paper financial statements without meeting the other requirements proposed because they don't understand or are not aware of all of the requirements. The educational experience of peer review contributes to enabling firms to understand and correct such deficiencies in those engagements. From my reading of the proposed standards ARSC has already determined that the engagement letter or management letter are not "reports" under the AICPA definition that would require these firms to be peer reviewed. I disagree wholeheartedly with this concept. Those firms need to benefit from the educational process of peer review. In fact, AICPA Council only approved the vote on the AICPA by-law change in October 1999 with the understanding that non-CPA firms would be subject to peer review. It would seem to me that the proposed standards conflict with that directive in this respect. Council was trying to keep everyone on the same playing field. If these engagements are not covered by peer review, how will we know and be able to confidently state that the profession is performing these engagements in conformity with professional standards?

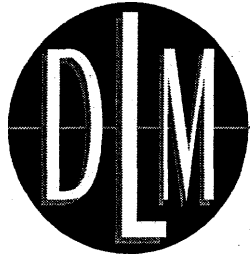
I am convinced that we can currently prepare financial statements in any other comprehensive basis of accounting without any difficulty in reporting. Clearly an accountants report could be written very similar to the language that has been suggested in the engagement letter section of the exposure draft. Such a report could be attached to "management use only" financial statements without allowing the issuance of "plain paper" financial statements. If the goal of ARSC is to exclude these engagements from peer review I would nearly prefer the creation of a fourth level of service that would include such an attached report so that it is clear that you are providing an exemption from SSARS and peer review. However, I don't believe that should be the goal of ARSC.

I know it is difficult to accept criticism of a proposal that you have agonized over. I truly appreciate the effort that ARSC has put into this proposal but honestly believe that this proposal is not the answer. Thank you for the opportunity to comment on the exposure draft. Please feel free to call me if you would like to discuss any of the matters further.

Sincerely,



Walter H. Webb, CPA



DAVIS, LYNN &
MOOTS, P.C.
Certified Public
Accountants

COMMENT LETTER #49

LARRY BROWN, CPA
LAWRENCE W. DAVIS, CPA
ANTHONY D. LYNN, CPA
RANDALL G. MOOTS, CPA
ANGELA M. GHAN, CPA

3828 SOUTH AVENUE
SPRINGFIELD, MO 65807
(417) 882-0904
FAX (417) 882-4343

www.dlmcpa.com
e-mail: alynn@dlmcpa.com

June 5, 2000

Sherry Boothe
Audit and Attest Standards, File 2200
AICPA
1211 Avenues of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

I applaud the Accounting and Review Services Committee for attempting to address current needs of AICPA members and this complicated issue. However, I do have significant concerns regarding some of the issues in this exposure draft and would like to present the following comments for the Committee's consideration:

I am currently Chairman of the Education and Communication Committee of the AICPA's Peer Review Board, the Board is an AICPA senior technical committee designated to issue professional standards and guidance in connection with the AICPA Peer Review Program. I am also a member of the AICPA's PCPS Executive Committee as well as serve on various Institute Task Forces. While serving on these various bodies, I have had the opportunity to query numerous other CPAs from across the country as to if their clients have been requesting this second level of compilations services. I have not had a single individual respond that they or their firms are having these requests.

Therefore, my first conclusion is the old saying, "If it is not broke, don't fix it."

If the reasons for these changes are the the "push the button" issue, I do not see where this issue has been resolved. Paragraph 1.05 in the definition of, *Submission of financial statements*, does not define the term "generate". Assume I assist a client in setting up their accounting software

Sherry Boothe
Audit and Attest Standards, File 2200
AICPA
Page Two

and designing the financial statements to their specifications. This client emails me their general ledger monthly and I look over their posting of transactions and propose some

additional adjustments, but I do not “push the button” to generate their financial statements. Have I “generated” the financial statements? I believe this is the fundamental question that must be defined. I currently have clients that submit this type of information to us monthly either on disk or by email. We prepare adjustments to their information and provide them with financial statements designed to their specifications. We *have* compiled these financial statements and attached an appropriate accountant’s compilation report. I have not had a single client ask if I could do the same service and not put my report on it because they do not intend to show them to anybody outside of management. As in my example and question above, I believe the Committee has not provided the firms with guidance concerning technological advances that are changing the way we deliver these services to our clients. It is the “service” that is evolving, not whether or not our clients intend to let third parties use the financial statements.

Our firms performs several peer reviews of other firms annually. We have observed that it took 3-6 years for many small firms to understand and implement the changes brought about by SSARS 7 and I shudder to think how long it will take them to decipher what they may or may not do because of these changes. I recently had the opportunity to see a compiled financial statement issued by a large regional firm in late 1999 and the accountant’s compilation report was pre-SSARS 7. These issues are not going to change because of this change in standards. The change will only give firms an excuse of why they don’t need to comply. I have been involved in the peer review process in excess of 12 years and have had the opportunity to observe many firms while sitting on Missouri’s report acceptance body since its inception. I can easily see a situation where a firm issues financial statements under this new guidance and never clarifies whether the client intends to deliver them to a third party or not. They will see this change as a reason not to have to worry about compliance with professional standards. When asked if they have an engagement letter or a management letter for an engagement, with today’s technology it will only take a matter of moments to prepare and place a management letter in the client file. I know if a client in that situation is asked by his banker if he has a recent financial statement, he will not hesitate to provide this “statement intended for management use”. Guidance suggests a firm notify the client to withdraw the financial statements and not to associate his name with these statements. If the client does not do so, then the firm should seek a legal remedy to protect itself. Why are professional standards even putting a firm in this position? In addition, my experiences in serving on several Institute task forces has provided me the additional insight that the majority of bankers (the largest third party user of financial statements) do not understand our professional standards and requirements. A caveat on the bottom of the financial statement will not deter the banker from using the information provided therein.

Sherry Boothe
Audit and Attest Standards, File 2200
AICPA
Page Three

In 1999, the Peer Review Board exposed standards changing the peer review requirements for firms performing no disclosure compilations only. The Board received numerous comments concerned with what was perceived as lessening of the oversight of firms that performed only this type of service. By failing to define whether or not the engagement letter or management letter constitute a level of reporting, ARSC has failed to affirm that this level of service is subject to peer review. If this is a firm's highest level of service and they believe they are no longer subject to peer review, then ARSC has (I believe unintentionally) circumvented professional requirements for Institute membership and licensing requirements in approximately 33 states. The only oversight would be professional ethics requirements. Unfortunately, ethics generally don't become involved until a complaint has been filed.

Once again, I do appreciate the opportunity to comment on the exposure draft and I do appreciate the effort undertaken by the Committee. However, in closing I reiterate, please provide guidance how to adapt to the changes in the services we provide and not some purported problem of whether or not a client intends a third party to use the financial statements. Please do not hesitate to contact me if you would like to discuss any of these matters further. I can be reached at 417-882-0904 or by email at alynn@dilmcpa.com.

Sincerely,

Anthony D. Lynn

cc: Diane Conant, Chair
AICPA Accounting and Review Services Committee

COMMENT LETTER #50



June 8, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

The Peer Review Report Acceptance Committee of the Illinois CPA Society (“Committee”) is pleased to have the opportunity to comment on the “Proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements”. 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

The Summary states that “it has become apparent that there is difficulty and inconsistency within the profession regarding the applicability of Statements on Standards for Accounting and Review Services (SSARS) with respect to compilation engagements.” While we agree with this statement, we believe that adding another level of service will increase the difficulty and inconsistency through either lack of understanding or intent. Additionally, we do not believe that the additional level of service will result in any cost savings to the accountant or the accountant’s clients.

The Summary also states that “The communication options include not only issuing a compilation report, but also obtaining an engagement letter or issuing a letter to management **before or at the time** {emphasis added} when the financial statements are issued to the client.” We believe provision should be made in the final statement whereby the signed or unsigned engagement letter is updated at least annually. If not, we

can foresee instances where the required communication may be several years old, particularly for on-going monthly "write-up" clients. As a result, those communications may not accurately describe the current services being performed and quite possibly, may be signed by or addressed to parties no longer employed by the client.

SPECIFIC CONSIDERATIONS

Paragraph .21 eliminates the requirement that the accountant issue a report stating the accountant's responsibility regarding the financial statements when the financial statements are not expected to be used by a third party. We believe that management will, under certain circumstances, give the financial statements to third parties. In spite of the fact that the accountant obtained an engagement letter signed by management, management and third parties have certain expectations regarding financial statements simply because they are aware of the accountant's involvement. Third parties rely on the expertise of accountants. We do not simply process transactions. The lack of a report would seem to eliminate any difference between services provided by a certified public accountant versus a non-certified accountant.

The Committee would be pleased to discuss our comments and recommendations with you at your convenience.

Sincerely,

Paul V. Inserra, CPA
Chair, Peer Review Report Acceptance Committee
Illinois CPA Society

APPENDIX A

ILLINOIS CPA SOCIETY PEER REVIEW REPORT ACCEPTANCE COMMITTEE ORGANIZATIONAL AND OPERATING PROCEDURES 2000

The Peer Review Report Acceptance Committee of the Illinois CPA Society (the Committee) is composed of thirty-one technically qualified, experienced members appointed from public accounting. These members have Committee service ranging from newly appointed to ten 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 peer review process.

The Committee usually operates by assigning a subcommittee of its members to study and discuss fully exposure documents proposing additions to or revisions of professional 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.

COMMENT LETTER #51

June 8, 2000

Diane Conant, Chair
AICPA Accounting and Review Services Committee
AICPA Audit and Attest Standards Division
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Diane:

I am a Senior Technical Manager in the AICPA's Peer Review Division. I'm currently responsible for the activities of the AICPA Peer Review Board (PRB) and have been involved in peer review at the AICPA for almost nine years. I have been involved with over one thousand compilation engagements performed by AICPA members in one capacity or another. I also attended numerous ARSC meetings pertaining to the Assembly Exposure Draft and reviewed all of the approximately 500 responses and follow-up responses to that Exposure Draft. I can therefore truly appreciate the difficulty of your task.

I commend the ARSC for attempting to address these issues regarding compilation engagements. I appreciate the opportunity to comment on the ARSC's latest exposure draft on SSARS 1. The comments expressed in this response are mine and do not necessarily represent those of the PRB or any other committee or employee of the AICPA.

Paragraph .01 – I agree that any method of compiling you propose should be subject to SSARS 1 and those performing these engagements should at least be subject to performance standards and the AICPA Code of Professional Conduct.

Paragraph .01a - I'm not clear how the accountant can reasonably determine if the financial statements are expected to be used by a third party since Paragraph .10 indicates that the accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. I urge the ARSC to clarify this matter in detail, possibly in wrap-around guidance issued with the standards, if not in the standards themselves.

Paragraph .05 – I believe that the standards need to precisely define what constitutes the *submission of financial* statements. I believe that the definition included is still ambiguous, including what is intended by the word "generated". My "test" is whether I can answer a question from one of our 1,500 peer reviewers or firms that may need to have a peer review by referring to professional standards. If the answer is not there, peer reviewers or myself have to answer, then we become the standard setters for you, and of

course that is not the ideal situation. I appreciate the difficulty in addressing the matter, but it appears that the “submission”/ “push the button” issue still exists.

Diane Conant, Chair

June 8, 2000

Page 2

Paragraph .05 – I agree with the definition of *third party* except that I believe that it is imperative to expand the definition of *management/controllership* to clarify how it is different than just having a *lack of independence*. I’m aware that you are also addressing the controllership issue but I believe it would be beneficial to issue the guidance in the controllership and submission areas, in conjunction with any other proposed revisions to the standards.

Several years ago I sat down with your entire committee to go over all of our peer review compilation and review engagement checklists, question by question, to help ensure that the questions did not set or imply the setting of professional standards. As a result, we made numerous changes to the peer review checklists. With this in mind, I urgently request that the issues I mentioned in **Paragraph .05** be addressed to avoid the AICPA peer review program from being your standard setters.

It is my understanding that the two new methods of compiling Paragraph .06, are performed without the issuance of a report. The standards are somewhat unclear in this regard. If this is the intent, I have some concerns, comments and suggestions:

I cannot stress enough how important it is for you to make it very clear (and I respectfully suggest you do so) in the standards (or in the wrap-around guidance at a minimum) what the reporting and non-reporting communication options are. As you are aware, these have peer review implications and if you don’t make the difference very clear as to the reporting versus non-reporting communication methods of compiling, others will interpret it the way they want to.

In that regard, I don’t believe any non-reporting method of communication (documentation of understanding) is appropriate, unless the accountant and the client sign the understanding prior to the start of fieldwork.

An engagement letter signed by both parties documenting their understanding prior to the start of fieldwork would be in the best interest of all parties, including the profession. An engagement letter informs the client of what the accountant will or will not do, it’s not a report. This is probably the brightest line available that differentiates a non-reporting method of communication and a reporting method. I believe the communications proposed in the exposure draft issued after the start of fieldwork and/or issued with the financial statements are reports and will be interpreted as such unless you clearly indicate otherwise. How can you issue a document to a client telling them what you are *going* to do if you have either already started or even finished the work? There is clearly an

appearance of reporting now in that case. Once you have crossed the bright line, the communication becomes vague (is it a report?) and therefore becomes a question. In addition, I'm not sure what the value of a document is that is signed by the accountant only, which the client can deny having ever received if necessary.

Diane Conant, Chair

June 8, 2000

Page 3

Although I'm not recommending that the ARSC approves non-reporting communication methods of compiling, but if the ARSC should approve such a method, I urge that the only method available be as I discussed in the previous paragraph.

IMPLEMENTATION AND TIMING ISSUES

There are many communication requirements in **Paragraphs .21-.22**, and if items required to be included in the communication to the client were omitted, it could be a matter referred to Ethics. In addition, it would be considered a significant deficiency as defined in the AICPA peer review program. The AICPA peer review program defines significant deficiencies as those matters that are normally material to understanding the report or financial statements or represent critical procedures. In addition, these types of deficiencies would normally cause the engagement to be substandard (see AICPA Compilation and Review Alert – 1999/2000 page 33).

In that regard I agree that "The accountant should possess a level of knowledge of the accounting principles and practices....". (**Paragraph .08**). I'm concerned that if the proposal is adopted with a September 30, 2000 effective date, (with early application encouraged), that there will not be ample time for the 30,000 plus AICPA member firms that perform compilation statements to adequately integrate these concepts, particularly **Paragraphs .21-.22**, into their system of quality control. There are over 10,000 firms that currently only perform compilation engagements and it would be expected that this constituency would be the largest to adopt the new methods of compiling. Unfortunately, history has proven that a revision to SSARS can take years to be fully implemented. For example, when SSARS 7 became effective for reports issued after 12/15/93, it was *at least three years* (one peer review cycle) before I saw a significant reduction in the number of firms that had deficiencies in this area. I believe that the exposure to peer review was a contributing factor that enabled the firms to correct the deficiencies in those engagements. I appreciate the ARSC's attempts to communicate the proposals in this exposure draft to the members, but I do not believe that such an early implementation date is appropriate in order for the accountant to possess the required level of knowledge to enable him/her to compile and report and communicate appropriately. In addition, if these engagements were not covered by peer review, how would you know and be able to confidently state that the profession is performing these engagements in conformity with professional standards?

It is also important to note that if these standards are adopted, many member firms will be performing these engagements as their highest level of service and will be requesting or will be required to have an AICPA peer review (whether required by the AICPA bylaws and/or Boards of Accountancy licensing requirements, or just volunteering to do so).

Diane Conant, Chair

June 8, 2000

Page 4

Another timing issue, but understandably one that I would not have expected the ARSC to address is that the effective dates discussed in the exposure draft do not allow for revisions to the peer review materials and reprogramming of the peer review computer system to be completed within the time frame necessary. For this and the reasons cited above, if adopted, I respectfully request the ARSC to change the implementation date of these standards to be no earlier than 12 months after they are approved and that early implementation should not be allowed. In addition, all wrap-around guidance should be issued prior to or simultaneously with the standards becoming effective

I hope that Boards of Accountancy address the exposure draft to decide specifically where these "reportless" compilations fall within their licensure and peer review requirements. I believe their comments will be very important.

Please feel free to call me if you would like to discuss any of the matters further. My phone number is 201/938-3021 and email is gfreundlich@aicpa.org

Sincerely,

William S. Parks

CERTIFIED PUBLIC ACCOUNTANT
506 CUMBERLAND STREET
CALDWELL, OHIO 43724

TELEPHONE 740 732-4013

FAX 740 732-2955

WILLIAM S. PARKS, CPA

JOHN D. CLINE, EA

June 5, 2000

Ms. Sherry Boothe, CPA
Audit and Attest Standards, File 2000
A I C P A
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

I have read the Exposure Draft, "Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements", Dated December 31, 1999.

I have also read the article in the April, 2000, issue of the Journal of Accountancy magazine, entitled "A New Approach to Compilations".

I believe this amendment should be adopted. My practice is in a small, rural area. I am sure there are many others CPA's in similar situations. My practice is about 90% compilations without disclosures. This amendment would provide me and my clients substantial relief in the explanation of the very negative last paragraph that the compilation report without disclosures presents.

With the present last paragraph mentioned above many of my clients have told me that I seek to provide a service without taking any responsibility whatsoever. The clients see this paragraph as a very negative comment on financial statements they only use for their own internal management purpose.

With all agreement I see this amendment as being appropriate and necessary. Please convey my whole hearted agreement for adoption to the ARSC.

Sincerely,



William S. Parks, CPA

53
SWEARINGEN & SWEARINGEN CO.

Certified Public Accountants

8500 STATION STREET • SUITE 390
MENTOR, OHIO 44060-4978
440 / 255-4300 OR 951-3111 FAX: 255-5081

June 5, 2000

Ms. Sherry Boothe
Audit and Attest Standards
File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Dear Ms. Boothe:

I oppose the proposed amendment to Statement on Standards for Accounting and Review Services 1, because this allows accountants to issue financial statements without a compilation report. These financial statements are to be restricted to management use, such as the previous internal use only reports, which end up in banker's files. There is nothing to indicate how these financial statements may differ from GAAP. Yet the accountant will be associated with them if problems develop.

The proposal for assembly of financial statements was based on similar deficiencies and failed. How many times and how much money needs to be wasted on bad proposals?

Yours Truly,

Raymond Michalski

Raymond Michalski

LINDER & LINDER ■ *Certified Public Accountants*

8 Chatham Place, Dix Hills, NY 11746 (631) 462-1213 Fax (631) 462-8319

Thomas Linder
Gail Linder

June 2, 2000

Ms. Sherry Boothe
Audit and Attest Standards
File 2200
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

This letter is in response to the Exposure Draft on the Proposed Statement on Standards for Accounting and Review Services "Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements" prepared by the AICPA Accounting and Review Services Committee (the "ED"). I presently chair the accounting and review services committee for the New York State Society of CPAs. The comments within reflect my professional opinions and are not in any way that of the accounting and review services committee or that of the NYSSCPAs.


I believe the ED should have addressed the greater issue of submission of financial statements as it is effected by todays technology. Based on my understanding of SSARS on submission of financial statements and the examples given in the 1997-1998 Compilation and Review Alert on the applicability of SSARS, the CPA has completely different results under submission when the CPA physically inputs information into his client's books and records as compared to the client inputting the same information which came from the CPA and in both cases financial statements are generated. It would seem that the results should be the same; the CPA is associated with both sets of financial statements and SSARS should apply. Rather the profession is faced with "who pushed the button". If SSARS were to be modified to be associated with financial statements rather than submission of financial statements, I believe the profession will have a clearer understanding when SSARS is applicable.

In addition, I believe the ED does not address the issue of the CPA performing monthly accounting services for a year-end compilation and/or tax engagement. In anticipation of the year-end engagement, routinely, the CPA will perform accounting services which can include writing up his clients books, making adjustments and providing other accounting services. In performing these services, the CPA has not been engaged to and does not generate financial statements. With todays technology, the client has the ability to generate a financial statement. Does SSARS apply? Under these circumstances, I believe that SSARS needs to clarify its definition for submission of financial statements so that when a CPA has not been engaged to issue an interim financial statement and the by product of performing accounting services results in the client generating a financial statement SSARS is not applicable.

The issue of internally used financial statements has been around for many years. I believe, as in the past, SSARS allows the CPA to communicate financial information to his client based of a set of performance standards without a hardship that has been expressed even with todays technology. Therefore, I do not believe that SSARS should be revised to allow for management use only financial statements. I have concerns as we lower standards, we eventually end up with no standards. As practical professionals, we know that even though management use only financial statements are not intended for third party use, some how the financial statements reach such third parties. As suggested by the ED, these management use only financial statements do not have to comply with generally accepted accounting principals nor with an other comprehensive basis of accounting, therefore such financial statements in the hands of a third party reader may cause the reader to be unaware that the financial statements may be incomplete, incorrect and misleading.

Respectfully submitted,

Linder & Linder



Thomas Linder

COMMENT LETTER #55

Comments re: Exposure Draft
Amendment SSARS 1
June 6, 2000

Via E-mail: sboothe@aicpa.org

General Comment (no paragraph ref.) If a compilation report is not submitted, nothing conveys that the accountant was governed by SSARS. Therefore, non-CPAs who are not bound by professional standards could issue financial statements that in appearance are no different from financial statements issued by a CPA, who is bound by professional standards. The proposed amendment would therefore blur the distinction between services performed by CPA's versus non-CPA's and make it more difficult for CPAs to compete on a fee basis. Ultimately, the proposed amendment may cause the extinction of "management use only" compilations performed by CPAs.

Paragraph 21

Comment: Issuing a letter to management that does not require management to actively and affirmatively acknowledge its understanding (i.e., by signature) should not be included in the amendment. Rationale: Without an active response affirming management's understanding, the likelihood is greater that the CPA and client expectations will not be mutual, possibly leading to greater liability. Also, the "letter alternative" adds an additional element of complexity to complying with standards that seems unjustified by any potential time or cost savings.

Paragraph 23

Comment: The two references specified do not convey sufficient meaning and emphasis. Rationale: A third party may incorrectly assume that the scope of "management use only" includes management's decision to release the financial statements for third party use. Reference Suggestion: "Use by any parties other than the management of ABC Company is prohibited unless an accountant's compilation report accompanies these financial statements." The above comments were prepared on behalf of the Not-for-Profit committee of the Washington Society of CPA's (WSCPAs) by the following CPAs:

Mary E. Joyce, CPA
Shareholder
The Myers Associates, PC
Seattle, Washington

David Bauch, CPA
Financial Officer
El Centro de la Raza
Seattle, Washington

COMMENT LETTER #56

MEMORANDUM

Page 1 of 2

TO: Sherry Booth (at sboothe@aicpa.org)
Audit and Attest Standards
File 2200

FROM: Robert K. Weatherly CPA, Chair and
Members, Tennessee Society of Certified Public Accountants
Peer Review Committee

DATE: June 9, 2000

RE: Exposure Draft (ED)
Proposed Statement on Standards for Accounting and Review Services (SSARS)
Amendment to Statement on Standards for Accounting and Review Services 1,
*Compilation and Review
of Financial Statements*

Please consider the following comments and observations with respect to the ED.

1. In the "Why Issued" paragraph of the "Summary" on page 5, we find: "Many entities that need timely financial information for management's use may not need that information in the form of financial statements that comply in all material respects with generally accepted accounting principles or an other comprehensive basis of accounting. In most cases, the compilation report is not useful for these types of entities." This comment implies that the accountant, under provisions of the revised SSARS if the ED is adopted, need not take actions to ensure that statements or financial information that do contain material departures from GAAP or the OCBOA are corrected before any party, including the client, makes use of them. This statement conflicts with ED paragraphs .9 and .10 and existing SSARS. In practice, many accountants will likely interpret this guidance as an excuse to avoid the need for adjustments or corrections if the "communication engagement" service outlined in paragraphs .21-.24 is taken. Further, this paragraph in the "Summary" implies that although "the compilation report is not useful for these types of entities", material GAAP or OCBOA departures do not affect the financial information's usefulness. This assertion from a senior technical committee of the AICPA creates concern.
2. Paragraphs .21-.24 outline the accountant's options when unaudited financial statements "are not expected to be used by a third party". The first option (issuing a compilation report in accordance with paragraphs .1-.20) is not substantially different (if at all) from current SSARS. The "communication" options may allow the accountant to "appropriately respond to the needs of clients" (who may not "need" a report on the unaudited financial statements). However, at what price? The accountant's judgment must be exercised in deciding when the statements are not expected to be used by a third party. Imagine the following circumstance (which is very ordinary in practice): The financial statements include external

debt (bank) and the accountant knows the client does not have other financial statements (i.e. annual audited or reviewed statements) to present to third parties. The client clearly represents orally and in the engagement letter or letter to management that external use is not intended. Will the accountant's judgment allow for the almost certain likelihood that the client's bank needs periodic financial statements to satisfy the bank's loan policies or regulators' concerns? If the communication option is available (and if it is perceived as a less expensive option) and the client does not want a compilation report then the accountant taking a realistic view of "not expected to be used by a third party" jeopardizes his/her relationship with the client. Peer reviews have shown that the existing SSARS often challenge the accountant's ethical standards. The communication option will inevitably lead to tougher challenges far too frequently.

3. It is likely that some accountant's support of the communication option is cost driven. The conclusion that compliance with SSARS will be less costly in communication engagements than in reporting engagements (existing SSARS) may be incorrect. Existing SSARS do not even require an engagement letter. The engagement letter or letter to management option outlined in the ED will likely increase the cost of compliance with professional standards.

4. An accounting and auditing practice for the purpose of *Standards for Performing and Reporting on Peer Reviews* (the *Standards*) include all engagements covered by SSARS. The existing SSARS require reports on compiled financial statements and give reasonable, logical and widely understood latitude (i.e., OCBOA statements, statements without disclosures or statements of cash flow, etc.). The ED allows “communication engagements” (no compilation reports). The *Standards* will clearly cover the communication engagements. Correct? Or will firms having communication engagements as their highest level of service with respect to financial statements even be enrolled in the peer review program? The AICPA Bylaws (BL Section 220, paragraph 2.2.3) require enrollment “if the services performed by such a firm are within the scope of the AICPA’s practice-monitoring standards and the firm issues reports purporting to be in accordance with AICPA professional standards.” [Emphasis added.] This will permit many firms currently enrolled in the peer review program to withdraw. Thus, remedial and educational efforts to improve those firms will no longer be in place. This conflict – and I presume the Bylaws are the “higher” authority – must be resolved before the ED can be approved in any form. Otherwise, the profession’s efforts to self-regulate itself will be hurt dramatically.
5. Principally for the reasons given in #2 and #4 above, some state boards of accountancy are not likely to be happy with the ED. The profession has expended great resources to “sell” the peer review program to the state regulatory authorities. Adoption of the ED could hurt or altogether negate these efforts.
6. The final “box” to the flow-chart of Appendix A appears to include an error. The first two (of three) bullets after “**AND** follow communication requirements in paragraphs .21-.24:” should be followed by “or”. The ED allows the accountant a choice – compilation report, engagement letter, or letter to management. As written, the message in the box implies that all three must be done.

For reasons state in paragraphs #1 - #5 above, the Peer Review Committee opposes the ED.

COMMENT LETTER #57

MEMORANDUM

Page 1 of 2

TO: Sherry Boothe (at sboothe@aicpa.org)
Audit and Attest Standards
File 2000

FROM: F. English Lacy CPA, Chair and
Members, Kentucky Society of Certified Public Accountants
Peer Review Committee

DATE: June 9, 2000

RE: Exposure Draft (ED)
Proposed Statement on Standards for Accounting and Review Services (SSARS)
Amendment to Statement on Standards for Accounting and Review Services 1,
Compilation and Review of Financial Statements

Please consider the following comments and observations with respect to the ED.

In the "Why Issued" paragraph of the "Summary" on page 5, we find: "Many entities that need timely financial information for management's use many not need that information in the form of financial statements that comply in all material respects with generally accepted accounting principles or an other comprehensive basis of accounting. In most cases, the compilation report is not useful for these types of entities." This comment implies that the accountant, under provisions of the revised SSARS if the ED is adopted, need not take actions to ensure that statements or financial information that do contain material departures from GAAP or the OCBOA are corrected before any party, including the client, makes use of them. This statement conflicts with ED paragraphs .9 and .10 and existing SSARS. In practice, many accountants will likely interpret this guidance as an excuse to avoid the need for adjustments or corrections if the "communication engagement" service outlined in paragraphs .21-.24 is taken. Further, this paragraph in the "Summary" implies that although "the compilation report is not useful for these types of entities", material GAAP or OCBOA departures do not affect the financial information's usefulness. This is an alarming assertion from a senior technical committee of the AICPA.

Paragraphs .21-.24 outline the accountant's options when unaudited financial statements "are not expected to be used by a third party". The first option (issuing a compilation report in accordance with paragraphs .1-.20) is not substantially different (if at all) from current SSARS. The "communication" options may allow the accountant to "appropriately respond to the needs of clients" (who may not "need" a report on the unaudited financial statements). However, at what price? The accountant's judgment must be exercised in deciding when the statements are not expected to be used by a third party. Imagine the following circumstance (which is very ordinary in practice): The financial statements include external debt (bank) and the accountant knows the client does not have other financial statements (i.e. annual audited or reviewed statements) to present to third parties. The client clearly represents orally and in the engagement letter

or letter to management that external use is not intended. Will the accountant's judgment allow for the almost certain likelihood that the client's bank needs periodic financial statements to satisfy the bank's loan policies or regulators' concerns? If the communication option is available (and if it is perceived as "cheaper") and the client does not want a compilation report then the accountant taking a realistic view of "not expected to be used by a third party" jeopardizes his/her relationship with the client. Peer reviews have shown that the existing SSARS often challenge the accountant's ethical standards. The communication option will inevitably lead to tougher challenges far too frequently.

It is likely that some accountant's support of the communication option is cost driven. The conclusion that compliance with SSARS will be less costly in communication engagements than in reporting engagements (existing SSARS) can only be reached by using smoke and mirrors. Existing SSARS do not even require an engagement letter. The engagement letter or letter to management option outlined in the ED will likely increase the cost of compliance with professional standards.

An accounting and auditing practice for the purpose of *Standards for Performing and Reporting on Peer Reviews* (the *Standards*) include all engagements covered by SSARS. The existing SSARS require reports on compiled financial statements and give reasonable, logical and widely understood latitude (i.e., OCBOA statements, statements without disclosures or statements of cash flow, etc.). The ED allows “communication engagements” (no compilation reports). The *Standards* will clearly cover the communication engagements. Correct? Or will firms having communication engagements as their highest level of service with respect to financial statements even be enrolled in the peer review program? The AICPA Bylaws (BL Section 220, paragraph 2.2.3) require enrollment “if the services performed by such a firm are within the scope of the AICPA’s practice-monitoring standards and the firm issues reports purporting to be in accordance with AICPA professional standards.” [Emphasis added.] This will permit many firms currently enrolled in the peer review program to withdraw. Thus, remedial and educational efforts to improve those firms will no longer be in place. This conflict – and I presume the Bylaws are the “higher” authority – must be resolved before the ED can be approved in any form. Otherwise, the profession’s efforts to self-regulate itself will be hurt dramatically.

Principally for the reasons given in #2 and #4 above, some state boards of accountancy are not likely to be happy with the ED. The profession has expended great resources to “sell” the peer review program to the state regulatory authorities. Adoption of the ED will hurt or altogether negate these efforts.

The final “box” to the flow-chart of Appendix A includes a critical error. The first two (of three) bullets after “**AND** follow communication requirements in paragraphs .21-.24:” should be followed by “or”. The ED allows the accountant a choice – compilation report, engagement letter, or letter to management. As written, the message in the box implies that all three must be done.

For reasons stated in paragraphs #1 - #5 above, the Kentucky Society of CPAs Peer Review Committee opposes the ED.

COMMENT LETTER #58

MEMORANDUM

Page 1 of 2

TO: Sherry Boothe (at sboothe@aicpa.org)
Audit and Attest Standards
File 2000

FROM: Bruce I. Sullivan CPA, Chair and
Members, West Virginia Society of Certified Public Accountants
Peer Review Committee

DATE: June 9, 2000

RE: Exposure Draft (ED)
Proposed Statement on Standards for Accounting and Review Services (SSARS)
Amendment to Statement on Standards for Accounting and Review Services 1,
Compilation and Review of Financial Statements

Please consider the following comments and observations with respect to the ED.

1. In the "Why Issued" paragraph of the "Summary" on page 5, we find: "Many entities that need timely financial information for management's use many not need that information in the form of financial statements that comply in all material respects with generally accepted accounting principles or an other comprehensive basis of accounting. In most cases, the compilation report is not useful for these types of entities." This comment implies that the accountant, under provisions of the revised SSARS if the ED is adopted, need not take actions to ensure that statements or financial information that do contain material departures from GAAP or the OCBOA are corrected before any party, including the client, makes use of them. This statement conflicts with ED paragraphs .9 and .10 and existing SSARS. In practice, many accountants will likely interpret this guidance as an excuse to avoid the need for adjustments or corrections if the "communication engagement" service outlined in paragraphs .21-.24 is taken. Further, this paragraph in the "Summary" implies that although "the compilation report is not useful for these types of entities", material GAAP or OCBOA departures do not affect the financial information's usefulness. In practice, practitioners and many of their clients may very well hold this view. However, the endorsement of this view by a senior technical committee of the AICPA may give it too much credibility.
2. Paragraphs .21-.24 outline the accountant's options when unaudited financial statements "are not expected to be used by a third party". The first option (issuing a compilation report in accordance with paragraphs .1-.20) is not substantially different (if at all) from current SSARS. The "communication" options may allow the accountant to "appropriately respond to the needs of clients" (who may not "need" a report on the unaudited financial statements). However, at what price? The accountant's judgment must be exercised in deciding when the statements are not expected to be used by a third party.

Imagine the following circumstance (which is very ordinary in practice): The financial statements include external debt (bank) and the accountant knows the client does not have other financial statements (i.e. annual audited or reviewed statements) to present to third parties. The client clearly represents orally and in the engagement letter or letter to management that external use is not intended. Will the accountant's judgment allow for the almost certain likelihood that the client's bank needs periodic financial statements to satisfy the bank's loan policies or regulators' concerns? If the communication option is available (and if it is perceived as "cheaper") and the client does not want a compilation report then the accountant taking a realistic view of "not expected to be used by a third party" jeopardizes his/her relationship with the client. Peer reviews have shown that the existing SSARS often challenge the accountant's ethical standards. The communication option will inevitably lead to tougher challenges far too frequently.

3. It is likely that some accountant's support of the communication option is cost driven. The conclusion that compliance with SSARS will be less costly in communication engagements than in reporting engagements (existing SSARS) can only be reached by using smoke and mirrors. Existing SSARS do not even require an engagement letter. The engagement letter or letter to management option outlined in the ED will likely increase the cost of compliance with professional standards.

4. An accounting and auditing practice for the purpose of *Standards for Performing and Reporting on Peer Reviews* (the *Standards*) include all engagements covered by SSARS. The existing SSARS require reports on compiled financial statements and give reasonable, logical and widely understood latitude (i.e., OCBOA statements, statements without disclosures or statements of cash flow, etc.). The ED allows “communication engagements” (no compilation reports). The *Standards* will clearly cover the communication engagements. Correct? Or will firms having communication engagements as their highest level of service with respect to financial statements even be enrolled in the peer review program? The AICPA Bylaws (BL Section 220, paragraph 2.2.3) require enrollment “if the services performed by such a firm are within the scope of the AICPA’s practice-monitoring standards and the firm issues reports purporting to be in accordance with AICPA professional standards.” [Emphasis added.] This will permit many firms currently enrolled in the peer review program to withdraw. Thus, remedial and educational efforts to improve those firms will no longer be in place. This conflict – and I presume the Bylaws are the “higher” authority – must be resolved before the ED can be approved in any form. Otherwise, the profession’s efforts to self-regulate itself will be hurt dramatically.
5. Principally for the reasons given in #2 and #4 above, some state boards of accountancy are not likely to be happy with the ED. The profession has expended great resources to “sell” the peer review program to the state regulatory authorities. Adoption of the ED will hurt or altogether negate these efforts.
6. The final “box” to the flow-chart of Appendix A includes a critical error. The first two (of three) bullets after “AND follow communication requirements in paragraphs .21-.24:” should be followed by “or”. The ED allows the accountant a choice – compilation report, engagement letter, or letter to management. As written, the message in the box implies that all three must be done.

For reasons stated in paragraphs #1 - #5 above, the Peer Review Committee opposes the ED as written.

COMMENT LETTER #59

I would like to respond to the Exposure Draft. In the *"Why Issued" paragraph of the "Summary" on page 5, we find: "Many entities that need timely financial information for management's use many not need that information in the form of financial statements that comply in all material respects with generally accepted accounting principles or an other comprehensive basis of accounting. In most cases, the compilation report is not useful for these types of entities."* This comment implies that the accountant, under provisions of the revised SSARS if the ED is adopted, need not take actions to ensure that statements or financial information that do contain material departures from GAAP or the OCBOA are corrected before any party, including the client, makes use of them. This statement conflicts with ED paragraphs .9 and .10 and existing SSARS. In practice, many accountants will likely interpret this guidance as an excuse to avoid the need for adjustments or corrections if the "communication engagement" service outlined in paragraphs .21-.24 is taken. Further, this paragraph in the "Summary" implies that although *"the compilation report is not useful for these types of entities"*, material GAAP or OCBOA departures do not affect the financial information's usefulness. In practice, practitioners and many of their clients may very well hold this view. However, the endorsement of this view by a senior technical committee of the AICPA may give it too much credibility. I am alarmed by this statement in the ED issued by a body that I greatly respect and appreciate.

Paragraphs .21-.24 outline the accountant's options when unaudited financial statements *"are not expected to be used by a third party"*. The first option (issuing a compilation report in accordance with paragraphs .1-.20) is not substantially different (if at all) from current SSARS. The "communication" options may allow the accountant to *"appropriately respond to the needs of clients"* (who may not "need" a report on the unaudited financial statements). However, at what price? The accountant's judgment must be exercised in deciding when the statements are not expected to be used by a third party. Imagine the following circumstance (which is very ordinary in practice): The financial statements include external debt (bank) or the client has significant vendor relationships and the accountant knows the client does not have other financial statements (i.e. annual audited or reviewed statements) to present to third parties. The client clearly represents orally and in the engagement letter or letter to management that external use is not intended. Will the accountant's judgment allow for the almost certain likelihood that the client's bank or its suppliers need periodic financial statements to satisfy the bank's loan policies or regulators' concerns or other requirements? If the communication option is available (and if it is perceived as "cheaper") and the client does not want a compilation report then the accountant taking a realistic view of *"not expected to be used by a third party"* jeopardizes his/her relationship with the client. Peer reviews have shown that the existing SSARS often challenge the accountant's ethical standards. The communication option will inevitably lead to tougher challenges far too frequently.

It is likely that some accountant's support of the communication option is cost driven. The conclusion that compliance with SSARS will be less costly in communication engagements than in reporting engagements (existing SSARS) cannot be substantiated. Existing SSARS do not even require an engagement letter. The engagement letter or letter to management option outlined in the ED will likely increase the cost of compliance with professional standards.

An accounting and auditing practice for the purpose of *Standards for Performing and Reporting on Peer Reviews* (the *Standards*) includes all engagements covered by SSARS. The existing SSARS requires reports on compiled financial statements and gives reasonable, logical and widely understood latitude (i.e., OCBOA statements, statements without disclosures or statements of cash flow, etc.). The ED allows "communication engagements" (no compilation reports). The *Standards* will clearly cover the communication engagements. Correct? Or will firms having communication engagements as their highest level of service with respect to financial statements even be enrolled in the peer review program? The AICPA Bylaws (BL Section 220, paragraph 2.2.3) require enrollment "*if the services performed by such a firm are within the scope of the AICPA's practice-monitoring standards and the firm issues reports purporting to be in accordance with AICPA professional standards.*" [Emphasis added.] This will permit many firms currently enrolled in the peer review program to withdraw. Thus, remedial and educational efforts to improve those firms will no longer be in place. This conflict – and I presume the Bylaws are the "higher" authority – must be resolved before the ED can be approved in any form. Otherwise, the profession's efforts to self-regulate itself will be hurt dramatically.

Principally for the reasons given in above, some state boards of accountancy are not likely to be happy with the ED. The profession has expended great resources to "sell" the peer review program to the state regulatory authorities. Adoption of the ED will hurt or altogether negate these efforts.

The final "box" to the flow-chart of Appendix A includes a critical error. The first two (of three) bullets after "AND follow communication requirements in paragraphs .21-.24:" should be followed by "or". The ED allows the accountant a choice – compilation report, engagement letter, or letter to management. As written, the message in the box implies that all three must be done.

For reasons stated above, the Peer Review Committee opposes the ED as written. I do not believe that current practice and/or other issues leaves a void or uneven playing field that this ED addresses.

Respectively submitted,

Roger D. Johnson CPA

June 9, 2000
270.842.2317



60

School of Accountancy

Copeland Hall 409 • Athens, Ohio 45701-2979 • (740) 593-2020 • FAX (740) 593-2412

June 3, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Booth:

The following comments are submitted personally by me, not in any official capacity for Ohio University, in response to the December 31, 1999 Exposure Draft, Proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements.

First, I support the major proposed change in the Exposure Draft that will result in the separation of compilation engagements into:

- (a) engagements requiring an accountants report and
- (b) engagements allowing other communication avenues.

I believe that this change, while containing some risk of noncompliance by clients, affords major benefits to the practice of public accounting. The change to two types of compilation engagements will be beneficial to both practitioners and their clients. Let me point out two areas where I believe that improvement in meeting this objective could be obtained:

1. The proposed change in paragraph 24 does not go far enough in addressing the problem when a client sends financial statements to others, or through failure to control the financial statements allows the financial statements to be obtained by others. I would hope that paragraph 24 would be changed so that practitioners could not issue subsequent compilation or review reports for a client until that client has issued a communication requesting that the financial statements be returned (note that the issuance of the communication, not the obtaining of the financial statements is believed to be the relevant action).
2. The terminology should be changed so that a redefinition of third parties is not made for compilations resulting in a definition that is different from that for audits and reviews. I would suggest that this could be easily handled by changing the definitions so that "third parties and/or non-knowledgeable managers" are grouped together in differentiating the two types of engagements. Such a

classification may create some sentence structure difficulties, but such difficulties are believed to be small in relation to having two definitions of third party.

I do have a concern about the proposed changes to SSARS No. 1 as amended. My concern is the definition of submission. The proposed change in the definition of submission is not significantly discussed in the preamble to the Exposure Draft. The proposed definition of submission in paragraph 5 requires both presenting and generating. This appears to mean, given the subsequent definition of financial statements in the same paragraph, that work by an accountant which does not result in a printed version of the financial statements does not fall under SSARS. This, I believe, is a major detriment to the proposal. The change is detrimental to the profession for three reasons:

1. It removes certain types of activities from professional practice standards for compilations into an area where no professional practice standards exist. Some practitioners, thinking they are protected by the professional practice standards of SSARS for their work, may find that they are not protected during litigation.
2. Electronic forms of financial statements are becoming more readily available and more utilized. In effect, there is no submission if the accountant does everything in the preparation of the financial statements except push the print button. I believe that the current definition steps away from current practice standards in this regard since material modification now requires an accountant to provide a report in such situations.¹
3. The change in SSARS effectively removes any professional practice criteria from such accountants who assist in putting these financial statements into the form, or partially into the form, of financial statements. In effect, the change allows the practitioner to make some professional input but without a requirement for consideration of the financial statements taken as a whole. This is important since professional services concerning financial statements require practitioners to consider financial statement(s) taken as a whole. What occurs if financial statements never reach paper form, as might happen in the future? Does this mean that SSARS does not apply whenever an accountant and a client decides to go around the standards?

In summary on this issue, I would hope that the proposal would be altered so as to maintain the current situation. Handling the electronic versions (that is, electronic files exist so that generation of financial statements in paper form requires only executing a command, or series of commands, that results in printed financial statements) could be remedied in at least three ways (with some parenthetical comments):

¹ My reading of the current standard is consistent with that by Diane S. Conant and J. Russell Madray. See Case 1 in their article in the Journal of Accountancy (April 2000), p.37.

- Requiring printing and then utilizing one of the two types of reporting allowed under the proposal (forcing use of an older technology)
- Requiring the accountant to maintain a file version of what was sent to the client and allowing an e-mail communication electronically stored (this alternative would require the client to have an e-mail address, but there are several free e-mail sites)
- Creating a site where accountants could submit their files (costly and unlikely)

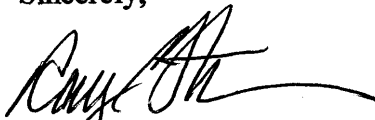
More alternatives may exist to provide an avenue for addressing this issue..

Finally, I would like to address an issue not, and not intended to be, addressed in the proposal. For several years, I have participated in the Ohio Society of CPAs Practicing Issues in Compilation and Review Conference. Many participants in this conference raise want to know the type of report to be issued when the engagement is for a compilation and the practitioner performs, for whatever reason, a procedure which would be performed in an audit (such as confirmation of receivables). These participants point to paragraph .03 in raising the issue. The AICPA position, with which I concur, continues to be that an accountant's compilation report is appropriate when the procedure is performed at the option of the practitioner or as a special service. It would seem to be easy to clarify the situation if paragraph .03 was changed to read (bold for additions and strike-through for deletions) :

".03 When the accountant performs more than one service pursuant to engagements for professional services (for example, separate engagements for a compilation and an audit), the accountant should issue the report that is appropriate for the highest level of service performed rendered. *"

Please do not hesitate to contact me by telephone (740) 597-1805, by FAX at (740) 593-2412, or by e-mail at stepher1@ohiou.edu if you have questions about my response.

Sincerely,



Ray G. Stephens
Professor and Director



61

Kansas Society of Certified Public Accountants

400 CROIX / P.O. BOX 5654 / TOPEKA, KANSAS 66605-0654 / 913-267-6460 / FAX 913-267-9278

June 5, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

The Kansas Society of Certified Public Accountants' Board of Directors has voted to adopt the position of its Accounting and Auditing Committee relative the Proposed Statement on Standards for Accounting and Review Services: *Amendment To Statement On Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements.*

The Kansas Society Board and its Committee offers the following suggestions:

In Appendix D, the Society suggests an additional paragraph regarding a step-up in level of service to third party use, i.e., Should it become necessary that you to obtain financial statements for third party use,...."

With regard to Appendix D, the Society suggests that it be limited to a "Letter To Management" which would eliminate the option of using it as an engagement letter.

With regard to paragraph .23, the option to use the term "Restricted for Management's Use Only" is not sufficient for the protection of the CPA preparing the statement and it should be eliminated.

The Society is concerned with the last two options of paragraph .21 inasmuch as the Exposure Draft does not appear to address the level of service being performed if no report is issued. The Society is concerned that GAAP, OCBOA, etc. will not be followed and that this new level of service will not be reviewed during a firm's Peer Review.

Sincerely,

A handwritten signature in black ink, appearing to read 'T.C. Anderson', written in a cursive style.

T.C. Anderson
Executive Director



KENTUCKY STATE BOARD OF ACCOUNTANCY

332 W. BROADWAY, STE. 310
LOUISVILLE, KENTUCKY 40202
www.state.ky.us/agencies/boa

Susan G. Stopher
Executive Director
Telephone: (502) 595-3037
Fax: (502) 595-4500

June 5, 2000

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

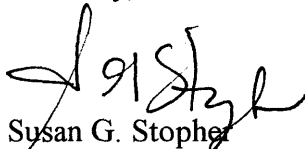
RE: Exposure Draft on Proposed
Statement on Standards for
Accounting and Review Services
(December 31, 1999)

Dear Ms. Boothe:

The Kentucky State Board of Accountancy met on June 1, 2000, and reviewed the above-referenced exposure draft. The Board unanimously agreed that they do not believe that these changes need to be made to the *Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements*.

If any further clarification of the Board's position is required, please contact me.

Sincerely,


Susan G. Stopher
Executive Director

SGS/dla





New
Hampshire
Society of
Certified
Public
Accountants

TO: Sherry Boothe
Audit and Attest Standards, File 2000
FROM: Anne Solitro
Executive Assistant
DATE: June 6, 2000
RE: **Exposure Draft**

Attached please find comments from our Accounting and Auditing Task Force Chair on Exposure Draft entitled "Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*".

ams
Attachment

1750 Elm Street, Suite 403
Manchester, NH 03104
Phone 603-622-1999
FAX 603-626-0204
E-mail: info@nhscpa.org
www.nhscpa.org

JUN 6 2000

Ed O'Reilly CPA
704 Hevey St.
Manchester NH 03102
(603) 627-2255

Anne Solitro,
Executive Assistant
New Hampshire Society of CPAs
1750 Elm St.; Suite 403
Manchester NH 03104

June 2, 2000

Dear Anne,

Please find below our comment from the A & A task force as you had requested:

Comment on Exposure Draft, Proposed Statement on Standards for Accounting and Review Services. Amendment to Statement on Standards for Accounting and Review Services 1. Compilation and review of financial statements.

The intent of this exposure draft appears to further refine some of the guidance issues that may arise into questions regarding accounting products offered for management use only or statements intended for use by third parties. One clarification included with this document is if the engagement is 'compilation' and the intent is for management use only, then, of course, the compilation under SSARS1 applies. Management use only should not dictate or control service levels although the failure of a management use only understanding in the written communication would then default or upgrade the service to compilation.

Examples of written communication, engagement letter or letters to management are sampled on page 16 and should be modified to fit the understanding of all involved. The flow chart on page 15 gives a summary of direction for reference to performance requirement paragraphs.

The effective application date of September 30, 2000, we have no comment on.

We agree with this exposure draft as written and, as nothing has come to our attention for concern, offer no change to its content. Should you have any questions regarding anything with this comment, please call.

Very Truly Yours



Ed O'Reilly CPA
Chair, A & A Task Force, NHSCPAs

June 5, 2000



California
Society
Certified
Public
Accountants

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

This letter represents the views of the CalCPA Committee on Professional Conduct (CPC) regarding the *Exposure Draft: "Proposed Statement on Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements,"* dated December 31, 1999.

The CPC believes strongly that the changes proposed in the exposure draft are not in the public interest and should not be allowed.

The exposure draft is another attempt to allow "plain-paper financial statements" without benefit of accountant's report. History has shown that, in spite of attempts to limit such statements to internal use, they have been regularly submitted to and accepted by financial institutions for lending purposes and the Department of Real Estate for reporting purposes.

If the accountant materially modifies a client's accounting data in electronic media, returns the modified data to the client, who then generates a financial statement from the modified data, under the exposure draft that would not be submission by the accountant. If the statements were in error and caused a financial loss by the client and/or third party, the accountant's liability would be difficult to establish, which (again) is not in the public interest.

The exposure draft has not given a compelling reason for the proposed changes. It states in the "Summary" that some entities may not need the compilation report, but the report is really issued for third-party users of those reports, who may very well need them. The only harm to the entities themselves seems to be the added costs that might be incurred by the addition of the report. But the exposure draft would require the accountant to comply with performance requirements of SSARS 1 and would further require a communication with

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
June 5, 2000
Page 2

management. The CPC fails to see how these requirements will be less costly than present requirements. Therefore the exposure draft will diminish potential benefits (especially to users of financial statements) without reducing costs (to management). This seems to be a very bad trade-off.

The CPC was unanimous in its belief that the exposure draft proposes changes that bad for the profession and bad for the public interest.

Sincerely,



Mary Beth Armstrong, CPA, Ph.D.
CalCPA Committee on Professional Conduct

cc: Committee on Professional Conduct
Paul D. Kuperstein, President
Donald L. Gurse, President-Elect
John D. Dunleavy, Interim Executive Director
Bruce Allen, Director, Government
Jeannie Tindel, Director, Legislation



WEBER STATE UNIVERSITY

65

June 8, 2000

Sherry Booth
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Booth:

I am writing to express concerns I have with the Proposed Statement of Standards for Accounting and Review Services, Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*. I currently serve as Chair of the Utah State Board of Accountancy, and will be actively involved in administering the provisions of the proposed amendment.

I appreciate the opportunity to comment on this proposal. I also appreciate the efforts of those on the accounting and review services committee that have made such great effort to develop the proposal in an effort to advance the accounting profession. I sincerely hope that my comments regarding the amendment will be taken in the spirit intended, namely, that of providing a forum for discussion that will aid in producing the optimal result for the profession generally. The views expressed herein are my own, and do not represent the views of other members of the Utah State Board of Accountancy or the Division of Occupational and Professional Licensing of the State of Utah.

My concerns with the proposed amendment are as follows:

1. This amendment may create as many problems as it solves. I am greatly concerned that clients who represent to the accountant that they will not make the financial statements available to third parties will violate that agreement. This may occur not only as a deliberate act on the part of the client, but may also occur simply because the client does not understand the rules with which accountants must comply. Adding this amendment to current standards only complicates existing rules that are already confusing and difficult for clients to understand. I am uncomfortable with idea that such issues should be left to the accountant and the client to resolve as this may impose additional burdens on these parties that they do not need and that may unnecessarily complicate the client-practitioner relationship.


SCHOOL OF ACCOUNTANCY

WEBER STATE UNIVERSITY | 3803 UNIVERSITY CIRCLE | OGDEN UT 84408-3803
(801) 626-6072 | (801) 626-7423 FAX

2. I am opposed to the option of not requiring the return to the accountant of a signed letter confirming the client's understanding of the engagement as provided for in the proposed amendment and illustrated in Appendix D thereto. The use of a statement such as "If the foregoing is not in accordance with your understanding, please notify us" is similar to negative confirmation of accounts receivable and entails the same concerns regarding reliability of evidence. In the present case, the issue is not whether a receivable exists, but whether evidence exists that the client understands the limitations on the use of the financial statements.
3. We as a board receive frequent complaints from licensed practitioners in the state regarding individuals not licensed as CPAs who are illegally performing compilations and reviews using the reporting language provided in current standards. This problem will only be exacerbated by this amendment through the addition of a new option that likely will be easier to exploit.
4. Although the amendment claims not to create a new type of engagement, that point would seem to be debatable. Will the creation of this new option have any effect on peer review and, if so, what will that effect be?

Once again, I appreciate this opportunity to comment on the proposed amendment.

Sincerely,



Larry A. Deppe, Ph.D., CPA, CMA
Chair
Utah State Board of Accountancy

June 6, 2000

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

The Accounting and Auditing Committee of the Maryland Association of Certified Public Accountants reviewed the exposure draft, *Omnibus Statement on Auditing Standards—2000*. Our comments are as follows:

The Committee in general is opposed to "plain paper financial statements." The sentiment was, "If you are going to do a compilation, do a compilation report." What assurance does the client have that the procedures have been performed in accordance with SSARS?

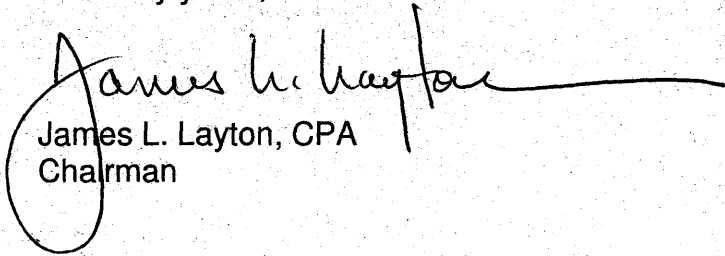
The Committee questioned the requirement to follow the performance requirements of SSARS when a report was not going to be issued and material departures from GAAP exist. How would the CPA comply with paragraphs 10 and 11?

The Committee would be willing to agree to the concept for interim financial statements, if the year-end financial statements are required to be reported on in accordance with SSARS (or reviewed or audited).

It is not practical to assume the client is not going to distribute the financial statements to a third party if requested, even with representations to the contrary.

We appreciate the opportunity to provide input into the standards setting process.

Sincerely yours,



James L. Layton, CPA
Chairman

67

CAMPBELL, BURKART & SAGE, CPA's, P.C.
2630 JACKSON BLVD., SUITE 201
RAPID CITY, SD 57702-3467
(605) 348-7721
FAX (605) 348-9721
EMAIL cpa@taxcrew.com

Certified Public Accountants

Kenneth G. Campbell
John H. Burkart
Naomi S. Sage

Law Degree
Kenneth G. Campbell

June 2, 2000

South Dakota CPA Society
Laura Coome, Executive Director
1000 West Ave. N #100
PO Box 1798
Sioux Falls, SD 57101-1798

Re: Comments on Proposed Statement on Standards
for Accounting and Review Services

Dear Laura:

This letter is in response to your request for comments on the above mentioned exposure draft.

I discussed the amendments to SARS1 with my partners and they are all in agreement that the changes are not in the best interest of the profession.

I would agree with the amendment if this were a perfect world where everyone understood the restrictive nature of financial statements issued without a report. However, this is not a perfect world and not everyone understands the different levels of financial statement reporting. Thus, the issuance of financial statements without some type of report will (in my opinion) be more confusing.

I see the following problems with the proposed amendments:

1. How many financial statements issued without a report will find their way into the hands of third parties? How much of an impact will this have on lawsuits and ultimately on the cost of our malpractice insurance and damage to our profession?

2. Paragraph .23 states that the “accountant should include a reference...” on each page of the report. This wording leaves me to believe that the reference is not required and is up to the discretion of the accountant whether or not to include the references. In my opinion this could lead to confusion and miscommunication problems. At a minimum I would change the wording to “the accountant shall include...”.
3. Paragraph .24 indicates that the accountant must get the client to return all statements that the accountant becomes aware of that were given to third parties. This places an additional burden on the professional that could be avoided if financial statements are required to have a report attached to them.
4. We are still required to follow all of the requirements of SARS. Therefore, I can see no real savings in not issuing a report on internal use financial statements.

Therefore, I respectfully disagree with the proposed amendments to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements.

Sincerely,

Campbell, Burkart & Sage, CPA's, P.C.

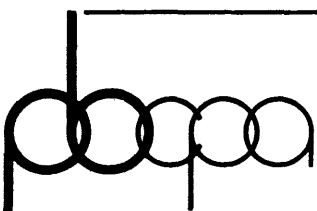


John H. Burkart, CPA

COMMENT LETTER #68

Moved to Business Valuations Comment Letters

#69



PAUL BROWNER, Chartered • Certified Public Accountants
932 HUNGERFORD DRIVE 17 ROCKVILLE, MD. 20850 301-340-3340

PAUL BROWNER, CPA

June 9, 2000

AICPA
Sherry Boothe
Audit and Attest Standards, File 2000
1211 Avenue of the Americas
New York, NY 10036-8775

Dear AICPA,

Just in case you may be in doubt about my opinion of your Exposure Draft amending SSARS 1, after reading the following, let me state at the top that I am totally AGAINST it!

Your original premise that there has been a change in the services clients are requesting of CPAs is false. Clients ALWAYS have needed help in the preparation of financial statements for their management's use, whether they had bookkeepers or bookkeeping software—and they always will.

Your statement that clients may need timely financial information not necessarily in the form of financial statements is valid. I offer clients a sheet I entitle "NUMBERS" (sample enclosed). This is NOT a financial statement because it does not come to a conclusion of a profit or loss and therefore does not require a report. It is disjointed, comparable information designed to assist management in the course their business is taking, telling them where their cash balance has been, how high their receivables are, what their salaries are, which way specific costs or expenses are going over a period of months and years. This goes out to them monthly, with or without periodic compiled financial statements.

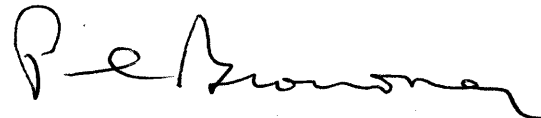
Let's take a look at your financial statements that do not comply in all material respects with generally accepted accounting principles. The inventory is computed from a prior gross profit percentage so that percentage is static—probably not likely in the real world. Accounts Payable may be what they were at the last year-end—certainly not a reality. Deferred expenses may not be written off each month—not a measure of what really is happening. Cash in bank may not be reconciled with the latest bank statement—a dangerous omission. And these financial statements are designed to give management information to run their business? This is not a service. It is a disservice!

I remember an AICPA MAP guru telling me that clients are running their business from some numbers on index card they have stashed away in their desk drawer—maybe dollars, but also cases shipped, pounds produced or gallons pumped. His observation was that if we could provide that client with such information in an accurate and timely fashion, the client would pay us any reasonable cost for that service.

You require an engagement letter or a letter to management documenting your understanding that these "financial abortions" will never see the light of day in a third party's hands. Please! You and I KNOW that will happen. And you feel that such a letter will "protect" the accountant? If you have passed this by your legal people and they have agreed, I bow to their expertise in the judicial system. However, consider the damage done. The CPA is out there having KNOWINGLY prepared a sub-standard financial statement for management to make financial decisions by. Who else is going to hire them? It is demeaning to the profession.

I suspect this effort is a result of pressure to leave a financial statement with a client after the computer-armed accountant has written up the books at the client's business. Leave them some salient numbers—not a flawed financial statement and fax or e-mail them a proper statement the next day. The client will appreciate it and so will their business.

One of the original promulgators of SSARS 1 described the Compilation as a "snake's belly". "There ain't nothing lower than that." This amendment will get down in the dirt even further. Don't do it!

A handwritten signature in black ink, appearing to read "P. E. Brown". The signature is fluid and cursive, with a long horizontal stroke at the end.

NUMBERS.....

####

of CLIENT X Y Z.....

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CASH IN BANKS												
1993	25,779	22,862	33,830	20,883	22,762	18,754	25,302	53,644	29,998	22,404	9,368	7,819
1994	33,792	34,503	31,390	30,653	38,493	59,350	50,811	72,496	66,795	55,451	38,444	72,473
1995	21,224	33,979	32,152	51,509	31,706	17,051	53,060	51,984	34,668	62,113	58,132	87,680
1996	30,374	43,013	22,218	25,904	24,374	27,262	24,857	22,540	22,624	30,157	59,549	44,727
1997	60,144	43,327	17,694	39,611	40,350	45,894	22,540	16,550	60,187	53,339	59,419	21,653
1998	20,896	76,591	40,774	87,403	88,645	65,931	47,398	29,419				
difference	-39,248	33,264	23,080	47,792	48,295	20,037	24,858	12,869				

MEDICAL SUPPLIES

1993	593	399	510	503	752	842	1,006	1,103	1,572	516	839	2,282
<i>cumulative</i>	593	991	1,502	2,005	2,758	3,599	4,605	5,708	7,280	7,796	8,636	10,918
1994	3,473	1,090	1,934	1,179	2,647	2,480	1,404	2,212	2,104	3,455	2,895	610
<i>cumulative</i>	3,473	4,563	6,497	7,676	10,323	12,804	14,207	16,419	18,523	21,978	24,873	25,483
1995	3,024	2,424	1,265	2,717	2,263	1,546	2,333	1,859	2,407	2,319	1,492	840
<i>cumulative</i>	3,024	5,448	6,713	9,430	11,693	13,239	15,572	17,431	19,838	22,157	23,649	24,489
1996	605	1,502	707	1,272	1,139	1,494	1,007	747	1,058	895	2,011	1,842
<i>cumulative</i>	605	2,107	2,814	4,086	5,225	6,719	7,726	8,473	1,190	1,356	1,528	846
1997	923	1,593	446	1,247	1,054	892	747	1,234	1,190	1,356	1,528	846
<i>cumulative</i>	923	2,516	2,962	4,209	5,263	6,155	6,902	8,136	9,326	10,682	12,210	13,056
1998	704	1,000	1,238	1,728	873	1,250	1,646	2,413				
<i>cumulative</i>	704	1,704	2,942	4,670	5,543	6,793	8,439	10,852				
monthly diff	-219	-593	792	481	-181	358	899	1,179				
<i>cumul diff</i>	-219	-812	-20	461	280	638	1,537	2,716				

YOUR SALARY

1993	40,000	45,000	42,500	42,500	37,500	37,500	55,000	0	65,000	47,500	45,975	33,975
<i>cumulative</i>	40,000	85,000	127,500	170,000	207,500	245,000	300,000	300,000	365,000	412,500	458,475	492,450
1994	0	30,000	25,000	30,000	40,000	35,000	35,000	35,000	44,000	44,000	44,000	47,972
<i>cumulative</i>	0	30,000	55,000	85,000	125,000	160,000	195,000	230,000	274,000	318,000	362,000	409,972
1995	20,000	30,000	40,000	40,000	60,000	50,000	40,000	26,600	26,600	26,600	26,600	26,600
<i>cumulative</i>	20,000	50,000	90,000	130,000	190,000	240,000	280,000	306,600	333,200	359,800	386,400	413,000
1996	70,000	40,000	40,000	50,000	40,000	20,000	45,000	60,000	0	20,000	20,000	70,000
<i>cumulative</i>	70,000	110,000	150,000	200,000	240,000	260,000	305,000	365,000	0	20,000	20,000	70,000
1997	0	80,000	15,000	55,000	55,000	20,000	60,000	55,000	0	50,000	30,000	37,990
<i>cumulative</i>	0	80,000	95,000	150,000	205,000	225,000	285,000	340,000	340,000	390,000	420,000	457,990
1998	20,000	0	55,000		25,000	50,000	50,000	50,000				
<i>cumulative</i>	20,000	20,000	75,000	75,000	100,000	150,000	200,000	250,000				
monthly diff	20,000	-80,000	40,000	-55,000	-30,000	30,000	-10,000	-5,000				
<i>cumul diff</i>	20,000	-60,000	-20,000	-75,000	-105,000	-75,000	-85,000	-90,000				

OTHERS' SALARIES

1993	10,013	7,371	7,009	6,258	6,542	6,994	7,440	10,833	6,525	7,199	7,259	6,930
<i>cumulative</i>	10,013	17,384	24,393	30,651	37,193	44,188	51,628	62,460	68,985	76,185	83,444	90,373
1994	9,534	3,404	11,247	7,287	7,131	7,317	7,595	11,810	7,390	7,284	7,535	7,431
<i>cumulative</i>	9,534	12,938	24,185	31,472	38,602	45,920	53,514	65,324	72,714	79,998	87,533	94,964
1995	10,861	6,232	8,060	8,926	9,385	12,650	7,392	10,053	8,381	8,200	9,013	8,328
<i>cumulative</i>	10,861	17,093	25,153	34,079	43,464	56,114	63,506	73,559	81,940	90,140	99,153	107,481
1996	11,895	8,660	9,212	9,028	9,688	10,261	14,444	9,615	8,805	9,572	9,035	12,831
<i>cumulative</i>	11,895	20,555	29,767	38,795	48,483	58,744	73,188	82,803	91,608	101,180	110,215	123,046
1997	9,265	9,407	10,367	10,663	10,303	14,023	9,615	9,249	9,827	9,506	8,725	13,994
<i>cumulative</i>	9,265	18,672	29,039	39,702	50,005	64,028	73,643	82,892	92,719	102,225	110,950	124,944
1998	9,601	9,678	10,186	10,101	8,331	15,062	9,389	10,190				
<i>cumulative</i>	9,601	19,279	29,465	39,566	47,897	62,959	72,348	82,538				
monthly diff	336	271	-181	-562	-1,972	1,039	-226	941				
<i>cumul diff</i>	336	607	426	-136	-2,108	-1,069	-1,295	-354				

COMMENT LETTER #70

June 13, 2000

Ms. Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: ED – Proposed Statement on Standards for Accounting and Review Services
– Amendment to Statement on Standards for Accounting and Review
Services 1, Compilation and Review of Financial Statements

Dear Ms. Boothe:

One of the objectives that the Council of the American Institute of Certified Public Accountants 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 has reviewed the above referenced exposure draft (ED) and is providing the following comments for your consideration:

General Comments

TIC believes that the revised definition of submission does not fix all the potential problems related to compilation services existing in practice today. It is not a "cure-all" in that there may still be difficulty and inconsistency within the profession regarding the applicability of SSARS with respect to compilation engagements. However, TIC recognizes that the ED is a first step in solving some of today's practice problems and TIC does not object to the proposed amendment to SSARS 1 with the consideration of suggested changes noted below.

TIC believes that the ED should discard "submit" and "submission" and replace them with other terms, such as "prepare" or "present". The members of TIC believe that changing the terminology will help practitioners distinguish between the "old" definition of submission and the proposed definition included in the ED.

Paragraph 5 of the ED defines "submission" and continues to use the present SSARS 1 terminology of "generated". However, "generated" is not defined. Further, the current SSARS 1 examples of what does not constitute submission are not repeated in the ED. Accordingly, the ED does not appreciably help the practitioner to determine whether he or she has "submitted", which is the heart of the problem. Additionally, the ED does not necessarily help to solve the "push the button" problem.

The word "should" is used throughout SSARS standards and interpretations. TIC believes the word "should" needs to be added to the definitions in SSARS 1, paragraph 5, to

clarify that "should" means "must," which would be consistent with the definition on page vii of the *FASB Current Text: Accounting Standards* as of 6/1/99.

TIC members also believe that providing communication options when an accountant submits financial statements that are not expected to be used by a third party may be confusing to both users and practitioners and may create additional complexities for accountants providing compilation services.

Specific Comments

- TIC believes that the definition of third party in paragraph .05 of the ED is unclear and could be misunderstood by both practitioners and users of the financial statements. It is TIC's understanding that in some circumstances, key management officials and certain investors could be considered third parties due to a lack of requisite knowledge and that such individuals can be removed from "third party" status by obtaining the requisite information. TIC suggests that the ED be expanded to include explanations of such situations and the circumstances under which users can be removed from "third party" status. Discussion should also be expanded to include consideration of internal third parties versus external third parties.
- TIC believes that the last communication option listed in paragraph .21, a one-way letter to management, should not be allowed as an alternative. In this letter, the user is making certain representations and acknowledging certain responsibilities, such as having the knowledge of the business necessary to place the financial information in the proper context and that the use of the financial statements will be limited to members of management with similar knowledge.

Under these circumstances, TIC believes it is imperative that management acknowledge its representations and document acceptance of its responsibilities by signing the letter. Accordingly, TIC believes that paragraph .21 should only provide the options of issuing a compilation report or obtaining an engagement letter signed by management.

- TIC believes that an additional item should be added to the list of references that are required to be included on each page of the financial statements. Specifically, paragraph 23 should be amended to require an additional reference stating that the financial statements may include departures from GAAP (or OCBOA).
- Item 1 of Appendix D states that the accountant may wish to identify known departures from GAAP (or OCBOA). TIC believes that known departures from GAAP (or OCBOA) should be disclosed in the engagement letter. TIC suggests that paragraph .22 of the ED be amended to include such a requirement.

TIC also offers the following clerical comments:

1. In the last box of the flow chart in Appendix A, the word "or" should be inserted after each of the first two options to clearly reflect that only one of the items is required.
2. In paragraph .22 of the ED, second group of bullet points, first bullet, after "GAAP," insert "or OCBOA" for consistency purposes.

We appreciate the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Candace Wright, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees

COMMENT LETTER #71

National State Auditors Association

Sherry Boothe
Audit and Attest Standards, File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

On behalf of the National State Auditors Association (NSAA), we appreciate the opportunity to respond to the exposure draft (ED) entitled, Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*.

We generally agree in principle with the communication and performance requirements for unaudited financial statements submitted to a client that are not expected to be used by a third party. However, we offer the following comments for consideration by the Accounting and Review Services Committee ("Committee") as it finalizes the document. Our comments are presented in paragraph sequence for ease of review.

Definitions

Because financial statements for governmental entities are included within the scope of the proposed Statement, we suggest in paragraph 1.05 of the ED, that the Committee expand the list of bulleted examples of financial statements to include "Statement of net assets" and "Statement of revenues, expenditures, and changes in fund balance." These are examples of typical government financial statements under the new governmental financial reporting model.

Compilation Performance Requirements

Paragraph 1.08 requires that the accountant possess a knowledge of accounting principles and practices of the client's industry. Footnote 10 states that, "For purposes of this Statement, the term *industry* includes not-for-profit activities." Because the proposed Statement will also include governmental entities, we suggest that the Committee expand footnote 10 slightly to read "For purposes of this Statement, the term *industry* includes governmental and not-for-profit activities."

Accountant's Communications With the Client When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party

We believe the third option presented in paragraph 1.21 is ineffective and recommend that the Committee consider eliminating it. Issuing a letter to management at the time of submitting the financial statements does not provide sufficient time for the accountant and client to reach an adequate understanding and agreement on the engagement's provisions and

limitations. Although the accountant might explain the services to be performed and the limitations on the

use of the statements, the client has not given specific acknowledgment and consent prior to the work being performed. Therefore, the opportunity for misunderstandings about the engagement and misuse of the financial statements is increased. At a minimum, we believe that the last portion of the third option should be revised to read "...before the statements are submitted."

Paragraph 1.23 provides two equally acceptable examples of a reference that the accountant should use on each page of the financial statements. Because the second example is more comprehensive and may be clearer to the reader, we suggest that the Committee revise paragraph 1.23 to read "The accountant should include a reference on each page of the financial statements, such as 'Solely for the information and use by the management of [name of entity] and is not intended to be and should not be used by anyone other than the specified party.'"

The second sentence of paragraph 1.24 states that, if the client does not request third parties to return financial statements that were distributed improperly, "...the accountant should notify known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney." We believe that the accountant should make a reasonable effort to identify *all* third parties that obtained the financial statements. Therefore, we suggest that the Committee expand the second sentence of paragraph 1.24 slightly to read "...the accountant should attempt to identify all third parties and notify those known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney."

Effective Date

Paragraph 2 states that "This Statement will be in effect for financial statements submitted on or after September 30, 2000. Earlier application is encouraged." We commend the Committee for establishing a specific effective date for this proposed Statement. Far too often, other AICPA committees merely indicate that a Statement is 'effective upon issuance.' By prescribing that a Statement is effective upon issuance, typically through publication in *The Journal of Accountancy*, these committees place an unnecessary burden on the accountant or auditor conducting an engagement who may not become immediately aware of the issuance of a Statement.

We appreciate the efforts of the Board and the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kinney Poynter, NSAA Deputy Director, at (606) 276-1147 or me at (785) 296-3792.

Sincerely,



Barbara J. Hinton
Legislative Post Auditor, Kansas

President, NSAA

MICHAEL D. ADAMS, CPA, PC

June 6, 2000

AICPA
Accounting and Review Services Committee
Harborside Financial Center
201 Plaza Three
Jersey City, New Jersey 07311-3881

RE: Comment on outstanding exposure draft, amendment to SSARS 1.

Dear Ladies and Gentlemen,

I am writing to you concerning the exposure draft as an amendment to SSARS 1. The proposed amendment in its current form, still does not address the submission issue in a satisfactory manner.

It is very common for the small practitioner to assist clients in complex transactions. The Committee ignores the fact that the practitioner has not been engaged to issue a financial statement or render any other kind of service one would commonly call an attest function. It is very common with the software available today to fix a transaction from long distance without being able to do the work (other accounting services) necessary to issue a compilation report. The client just wants the transaction entered properly. At no time is there any intention to issue a financial statement.

Any statement with a provision to consult an attorney is so bad that it should not be issued. Why does the Committee ignore the international standard (and now Florida) for issuing a financial statement? That standard is when you have been engaged by a client to issue a financial statement, then you will.

Why has the Committee removed "other accounting services" from the standard? This is a very necessary step in being able to issue financial statements.

In all my literature, the Institute keeps informing us about all the other services that we can and should provide our clients. I do not have the luxury that many of the Big 5 accounting firms do in spinning off a separate consulting company. So if the Institute wants us to expand other services, why do the various boards try to make it more difficult to do our normal work? I am confused. Between this and the new independence standards (which I could write a novella on) the AICPA seems to be trying to make it even more difficult as a small practitioner to maintain a high quality practice.

Sincerely,

[Handwritten signature of Michael D. Adams]

Michael D. Adams, CPA

73

GARNERO SMITH HURD & MILLER

Certified Public Accountants

P.O. BOX 2013
PORT ANGELES, WASHINGTON 98362
(360) 457-0436
FAX (360) 452-4965

June 5, 2000

AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Gentlemen;

I'm writing to give you my opinion on your Proposed Statement on Standards for Accounting and Review Services: Amendment the Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements.

Why do you persist in making life so complicated and difficult? For example. .01(a) states we can issue a compilation to the client who tells us that the statement will not be used by third parties. Then in .24 when we become aware that the financials have been given to a third party (which common sense and my experience tells me will happen on a regular basis) we must insist on getting the statements back and even go so far as contacting our attorney. What a mess. Good bye client and hello law suit. This is clearly a no win situation. Please go back to the drawing board on this one.

When can we just simplify things and simply do what the client contracts for us to do? You want a compilation? You get a letter. Just help with AJE's, you got it with no association to the CPA's. The banks and marketplace will take care of this problem. For a change, why don't you actually assist the CPA's?

Sincerely,



Stuart T. Smith, CPA

COMMENT LETTER #74

May 31, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

I know that my response is a couple days late. However, I hope you will include it with the other letters being considered by the Accounting and Review Services Committee.

I am generally in favor of the proposed changes. However, with respect to paragraphs .06, .21 and .22, I believe that instead of a signed or unsigned engagement letter, the accountant should be required to obtain, at least annually, a **signed representation letter** from the client's management regarding the limitations on the use of the financial statements. As a result, the requirements regarding the accountant's understanding with the client regarding the services to be performed would remain the same as other accounting and review engagements. That is "preferably in writing". In addition, a signed representation letter would be contemporaneous with the issuance of the financial statements and less likely to be manufactured at a later date in order to meet the requirements of some third party, such as a peer reviewer.

If you have any question regarding this response, please do not hesitate to contact me via telephone at 312-993-0407 x236 or email at piersonp@icpas.org.

Sincerely,

Paul E. Pierson, CPA



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

June 12, 2000

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Boothe:

We have reviewed the AICPA Exposure Draft (ED), entitled *Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements*, and we agree in principle with the guidance contained in the proposed amendment for compilation engagements. We do, however, have the following eight comments and suggestions for the Accounting and Review Services Committee (Committee) to consider in finalizing the document.

1. In Paragraph 1.05, on Page 9 of the ED, the first sentence following the bulleted examples of financial statements states that "A financial statement may be, for example, that of . . . a government unit . . ." Because the term *government unit* usually implies a division or agency of a governmental entity, for clarity we suggest that the Committee revise this sentence slightly to read "A financial statement may be, for example, that of . . . a governmental entity . . ."
2. Also in Paragraph 1.05, on Page 9 of the ED, because financial statements for governmental entities are included within the scope of the proposed Statement, we suggest that the Committee expand the list of bulleted examples of financial statements to include "Statement of net assets" and "Statement of revenues, expenditures, and changes in fund balance." These are examples of typical government financial statements under the new governmental financial reporting model.
3. Paragraph 1.08, on Page 10 of the ED, requires that the accountant possess a knowledge of accounting principles and practices of the client's industry. Footnote 10, at the bottom of Page 10, states that "For purposes of this Statement, the term *industry* includes not-for-

Ms. Sherry Boothe

Page 2

June 12, 2000

profit activities." Because the proposed Statement will also include governmental entities, we suggest that the Committee expand Footnote 10 slightly to read "For purposes of this Statement, the term *industry* includes governmental and not-for-profit activities."

4. Paragraph 1.21, on Page 13 of the ED, provides the accountant with three distinct options when submitting unaudited financial statements to a client that are not expected to be used by a third party. The accountant can either issue a compilation report, obtain an engagement letter signed by management, or issue a letter to management documenting the terms of the engagement. Because Paragraph 1.21 is silent as to the type of transmittal letter or accountant's letter that would accompany the compiled financial statements under either the second or third option, we suggest that the Committee include a sentence in the final Statement (either immediately following the third bullet or as a footnote) expressly stating that, unless the engagement letter or letter to management is issued at the time the statements are submitted, no other accountant's report would be issued with the financial statements when the accountant selects the option in either the second or third bullet.
5. Paragraph 1.23, on Page 14 of the ED, provides two equally acceptable examples of a reference that the accountant should use on each page of the financial statements. Because the second example is more comprehensive and may be clearer to the reader, we suggest that the Committee revise Paragraph 1.23 to read "The accountant should include a reference on each page of the financial statements, such as 'Solely for the information and use by the management of [*name of entity*] and is not intended to be and should not be used by anyone other than the specified party.'"
6. The second sentence of Paragraph 1.24, also on Page 14 of the ED, states that, if the client does not request third parties to return financial statements that were distributed improperly, ". . . the accountant should notify known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney." We believe that the accountant should make a reasonable effort to identify *all* third parties that obtained the financial statements. Therefore, we suggest that the

Committee expand the second sentence of Paragraph 1.24 slightly to read “. . . the accountant should attempt to identify all third parties and notify those known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney.”

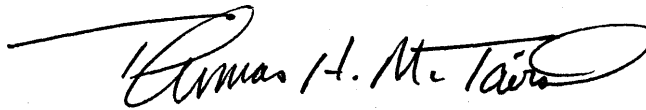
7. Paragraph 2, also on Page 14 of the ED, states that “This Statement will be in effect for financial statements submitted on or after September 30, 2000. Earlier application is encouraged.” We commend the Committee for establishing a specific effective date for this proposed Statement. Far too often, other AICPA committees merely indicate that a Statement is ‘effective upon issuance.’ By prescribing that a Statement is effective upon issuance, typically through publication in *The Journal of Accountancy*, these committees place an unnecessary burden on the accountant or auditor conducting an engagement who may not become immediately aware of the issuance of a Statement.
8. During our review of the ED, we noticed four additional instances in which we believe minor grammatical revisions would enhance the clarity and usefulness of the proposed Statement. First, at the end of Paragraph 1.03 and at the bottom of Page 8 of the ED, an asterisk, rather than a number, is used to identify a footnote. For consistency, we suggest that the Committee number this as Footnote 3, and renumber Footnotes 3 through 13, accordingly. Second, in the third sentence of Item 1., Appendix D, on Page 16 of the ED, for consistency within the document, we suggest that the Committee reverse the phrase “We will not review or audit . . .” to read “We will not audit or review . . .” Third, also in Appendix D, the first sentence of the fourth paragraph begins “Material departures from GAAP (or OCBOA) may . . .” For clarity, we suggest that the Committee define these acronyms the first time they are used in the illustrative engagement letter or letter to management, such as “Material departures from generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA) may . . .” Fourth, the parenthetical optional statement, which follows the fourth paragraph in Appendix D, contains the phrase “[include list of specified parties].” Although the ED continually refers to third parties, this parenthetical reference is to the client’s management. Therefore, for

Ms. Sherry Boothe
Page 4
June 12, 2000

clarity, we suggest that the Committee revise this phrase to read
"[include list of specified members of management]."

We appreciate the opportunity to comment on this Exposure Draft. Should you have any questions, or desire further details on our comments, please contact me or Jon A. Wise, C.P.A., Director of Professional Practice.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Thomas H. McTavish, C.P.A.
Auditor General

COMMENT LETTER #76



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765**

June 15, 2000

Sherry Boothe
Audit and Attest Standards
File Reference No. 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

On behalf of the Department of Audit we would like to thank you for the opportunity to comment on the Exposure Draft, *Amendment to Statement on Standards for Accounting and Review Services (SSARS) 1, Compilation and Review of Financial Statements*.

We generally agree in principle with the communication and performance requirements for unaudited financial statements that are unexpected to be used by a third party and that are submitted to a client. We believe the proposed amendment to SSARS 1 will give the accountant/auditor the appropriate communication options to provide a quality service and respond to a client's needs.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 741-3697.

Sincerely,

Arthur A. Hayes, Director
Division of State Audit

June 21, 2000

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

Re: **File 2200**

Dear Ms. Gibson:

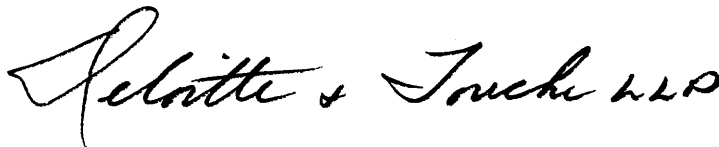
We are pleased to comment on the Proposed Statement on Standards for Accounting and Review Services, *Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements (SSARS 1)*.

Although we support amending existing standards to clarify the types of engagements that are subject to SSARS 1, we do not support the issuance of the proposed statement. We believe the proposed statement significantly increases the potential for misunderstandings by both clients and other parties regarding the level of service provided by the accountant in a compilation engagement. We elaborate on our position in the "General Comments" section of the attachment.

In the event that the proposed statement does move forward, we have also provided several editorial comments for your consideration, as described in the attachment to this letter. Our recommended revisions to the proposed statement are shown as bold text and strike-through text.

Please contact Robert C. Steiner at (203) 761-3438 if you wish to discuss our comments.

Sincerely,



Attachment

GENERAL COMMENTS

The proposed amendment to SSARS 1 provides accountants with options for communicating with management when engaged to compile financial statements that are not expected to be used by third parties. Under the proposed statement, if the compiled financial statements are not “reasonably expected” to be used by third parties, compilation reports are no longer required to be issued. Instead, an understanding of the services to be performed may be established in an engagement letter or in a separate letter issued to management. For the reasons discussed below, we do not support the proposed amendment to SSARS 1.

First, we believe the proposed statement creates greater potential for misunderstanding if compiled financial statements not originally intended for third-party use are nonetheless provided to third parties without the accountant’s knowledge. The accountant has no control over the use of financial statements he or she has compiled once those statements have been issued. Under the proposed statement, if the accountant opted not to issue a report, unintended third-party users would only see that the financial statements were marked “For Management’s Use Only.” They would not be made aware of the limitations of the financial statements because they would not be in possession of either the compilation engagement letter or other communications to management that would explain the limitations of the services provided. Furthermore, the unintended third parties may be advised by the client that an accountant performed a compilation or other services with regard to the financial statements, and, as a result, the third parties may inappropriately rely on the financial statements without knowing the limitations of the accountant’s services.

Under existing standards, however, each page of the compiled financial statements is referenced “See Accountant’s Compilation Report,” and the report accompanies the financial statements. Accordingly, third parties are made aware of the report, and by reading the report, they will learn of the level of service performed by the accountant with respect to the financial statements. Even if the report has been detached from the compiled financial statements, under existing standards an unintended third-party user will see the reference and can request the report from the client. Using the reference “For Management’s Use Only,” as proposed in the proposed statement, would not make unintended third parties aware of the additional information that may be needed to understand the compiled financial statements. We believe that the proposed statement could contribute to a widened “expectation gap” with respect to compiled financial statements and thus may not be in the public interest.

Second, we believe that the threshold of when an accountant may “reasonably expect” that the financial statements may be used by a third party is vague and is in need of definitive criteria to aid in the consistent determination of when the proposed statement is applicable. If the Accounting and Review Services Committee intends to proceed with amending SSARS 1, we recommend that the Committee develop definitive criteria regarding compiled financial statements that are not “reasonably expected” to be used by third parties.

Third, we believe that providing different communication options to accountants performing compilation engagements may create confusion among clients. If the only communication option available is issuing a compilation report, then the financial statements and accompanying compilation report will stand on their own, and no other documents are needed to understand any limitations associated with the compiled financial statements. However, if an accountant decides to communicate the limitations of the engagement in the engagement letter or in a separate letter to management, multiple documents are needed in order to understand the services performed by the accountant and the limitations of those services. This will create a greater potential for misunderstanding, especially if the financial statements are provided to owners or members of management who may not be familiar with the terms of the accountant's compilation engagement. Under existing standards, the financial statements are annotated to refer the reader to the accompanying compilation report; accordingly, misunderstandings regarding the procedures performed by the accountant are less likely to occur under existing standards.

For example, under existing standards, if an owner or new president is in possession of the compiled financial statements, each page would be referenced "See Accountant's Compilation Report," and he or she would, by reading such report, become aware of the limitations of the compiled financial statements and the accountant's services. In contrast, under the proposed statement, if an owner or a new president has only the compiled financial statements that are marked "For Management's Use Only," and a compilation report is not attached, he or she may be unaware of the limitations of the services provided by the accountant unless he or she is also in possession of the engagement letter or letter to management and has matched the two documents.

The AICPA has stated that the proposed amendment is needed for the following reasons:

- Difficulty and inconsistency within the profession regarding the applicability of the SSARS with respect to compilation engagements
- The need by many entities for financial statements in a form that does not comply in all material respects with generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA).

We believe that if inconsistencies in applying the SSARS exist in practice, efforts should be made to clarify the type of engagement that is considered to be a compilation, rather than providing options of how to communicate the limitations of a compilation. The proposed standard does not seem to address such inconsistencies.

We also understand that some clients may not need or want financial statements that comply with GAAP or OCBOA. However, such non-GAAP or non-OCBOA financial statements may be provided under existing standards. Under existing standards, if the financial statements are not in accordance with GAAP or OCBOA, the accountant may modify his or her report to explain the material modifications. Additionally, under existing standards, the omission of all disclosures is permitted as long as such omission is clearly indicated in the accountant's report

and the disclosures are labeled “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included.” Under the proposed amendment to SSARS 1, departures from GAAP or OCBOA and omission of footnotes may be discussed in the compilation report, the engagement letter, or a separate letter to management. Therefore, the proposed amendment simply changes how and where this communication can be made. It does not change the requirement to communicate that information. We believe that providing accountants with the option of explaining the limitations on services performed and departures from GAAP or OCBOA in a letter rather than a report attached to the financial statements creates the potential for both intended and unintended users to misunderstand the basis of presentation and place undue reliance on the compiled financial statements.

For all of the above reasons, we do not support the adoption of the proposed statement.

OTHER COMMENTS

Although we do not support the issuance of the proposed statement, we believe it is appropriate to provide the following comments on specific paragraphs, including editorial comments, in the event that the proposed statement moves forward.

Introduction Paragraph

The intention of the amendment is not clear in the introduction paragraph; therefore, we suggest the following change:

This amendment provides communication and performance requirements for unaudited financial statements submitted to a client that are not expected to be used by a third party. The performance and communication requirements for this **type of engagement** would be subject to the Statement on Standards for Accounting and Review Services (SSARS No. 1), as amended. **This amendment provides the accountant with communication options when compiling financial statements. SSARS 1, as amended, does not require an accountant to issue a compilation report if the financial statements are not expected to be used by a third party. However,** this statement does not preclude an accountant from reporting in compliance with SSARS No. 1 in such engagement.

Paragraphs .01 and .02

The key criterion regarding the submission of financial statements (i.e., that the accountant should not submit unaudited financial statements unless, *at a minimum*, he or she complies with the requirements applicable to a compilation engagement) is absent from paragraph .01. Although that criterion does appear in paragraph .02, readers that stop before paragraph 2 may conclude from paragraph .01 that this standard does not apply if the accountant does not perform a compilation. Accordingly, we recommend that the text of paragraph .02 be placed as the second sentence of paragraph .01 (i.e., before .01a and .01b) and that the remaining paragraphs be renumbered.

Additionally, we recommend that the language regarding management representations mirror the guidance contained in AT section 200, *Financial Forecasts and Projections*, paragraph .02, for determining whether financial statements can reasonably be expected to be used by a third party. Further, certain wording and punctuation changes should be made due to the inconsistent sentence structure of this paragraph. Therefore, we suggest the following changes:

.01 This statement sets forth the performance and communication requirements when an accountant submits unaudited financial statements of a nonpublic entity to his or her client or third parties. **The accountant should not submit unaudited financial statements of a nonpublic entity to his or her client or a third party unless, at a minimum, he or she complies with the provisions of this statement that are applicable to a compilation engagement.**

1. *Compilation of financial statements.* If the accountant performs a compilation, a communication to management is required. The type of communication depends on the following:

- **If the accountant is engaged** to report on compiled financial statements or submits financial statements to a client that are, or reasonably might be, expected to be used by a third party, §see paragraphs .12 - .20 for reporting requirements.
- **If the accountant submits** financial statements to a client that are not **reasonably** expected to be used by a third party, §see paragraphs .21 - .24 for required communications to management.

In deciding whether the financial statements are, or reasonably might be, expected to be used by a third party, the accountant may rely on **either the written or oral representation of management's representation without further inquiry**, unless information comes to his or her attention that contradicts management's representation.

Paragraph .05

Paragraph .05, in its definition of financial statements, lists the types of financial presentations that are not considered to be financial statements for purposes of this proposed standard. We question why normalized financial statements are not identified here as a further exclusion given the proposed statement on financial statements included in written business valuations.

Additionally, we recommend that the definition of third party be revised as follows:

Third party. All parties ~~except for~~ **other than** members of management who are knowledgeable about the nature of the procedures applied and the basis of accounting or assumptions used in the preparation of the financial statements.

Paragraph .06

Given the fact that the accountant may still issue a compilation report (and, in fact, is required to issue a compilation report if the financial statements are reasonably expected to be used by a third party), the second sentence of paragraph .06 provides undue emphasis on situations in which the financial statements are *not* expected to be used by a third party. Accordingly, we recommend deleting the second sentence. Alternatively, a footnote could be added to the end of the first sentence to address *both* situations.

Paragraph .07

Paragraphs .08-.11 would not be applicable in review situations; accordingly, we recommend revising paragraph .07 to improve its clarity as follows:

.07 Unless the accountant is performing a review, the compilation performance requirements in paragraphs .08 - .11 are applicable to a compilation of financial statements, whenever the accountant:

- Is engaged to report on compiled financial statements,
- Submits financial statements to a client that are, or reasonably might be expected to be used by a third party, or
- Submits financial statements to a client that are not expected to be used by a third party.

Paragraph .21

We recommend revising the introduction of this paragraph to mirror paragraph .01 and to indicate clearly that there are three options:

~~When~~ **If** an accountant submits unaudited financial statements to his or her client **that he or she has compiled and** that are not expected to be used by a third party, he or she should use one of the following communication options:

Paragraph .22

The items listed in paragraph .22 are inconsistent in nature and order with the illustrative letter in Appendix D. For example, Appendix D includes a statement that the information used in the preparation of the financial statements is the representation of management—not that the financial statements are management’s responsibility. The requirement for documenting the agreement that the financial statements are not to be used by third parties is stated more strongly in paragraph .22 than in Appendix D. Additionally, we suggest the following changes:

.22 The documentation of the understanding should include the following **descriptions or statements**~~matters~~:

- ~~The N~~ nature and limitations of the services to be performed.
- Management ~~to be held~~ is responsible for the entity’s financial statements.
- ~~No opinion or any other form of assurance on the financial statements to be provided.~~
- The financial statements **will not be (have not been)** reviewed or audited
- **No opinion or any other form of assurance on the financial statements is (or will be) provided.**
- Acknowledgement of management’s representation and agreement that the financial statements are not to be used by third parties.
- The **engagement** ~~financial statements~~ **cannot** ~~to be~~ relied upon to disclose errors, fraud, or illegal acts.

The documentation of the understanding should also include the following additional matters if applicable:

- **Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed.**
- Substantially all disclosures (and the statement of comprehensive income and statement of cash flows, if applicable) required by GAAP may be omitted.
- ~~Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed.~~
- Lack of independence.

Such an understanding reduces the risk that the accountant or the client may misinterpret the needs or expectations of the other party. If the accountant believes an understanding with the client has not been established, he or she should decline to accept or perform the engagement.

Paragraph .24

We believe that an additional option should be provided in paragraph .24; namely, that the accountant may issue a compilation report that is accompanied by the financial statements and have the client provide the third party with a copy of that report document. Additionally, we suggest the following change to make it clear that the accountant should consult with his or her attorney prior to notifying the known third parties:

If the accountant becomes aware that the financial statements have been distributed to third parties, the accountant should discuss the situation with the client and request that the client have the statements returned. If the client does not comply with this request within a reasonable period of time, the accountant should, **preferably in consultation with his or her attorney**, notify known third parties that the financial statements are not intended for third party use., ~~preferably in consultation with his or her attorney.~~

Appendix A

The following changes should be made to footnote 4 of Appendix A to be consistent with the changes suggested for paragraph .22:

The engagement letter signed by management or the letter issued to management should include the following **descriptions or statements matters**:

- **The Nnature and limitations of the services to be performed.**
- Management is responsible for the entity's financial statements.
- ~~No opinion or any other form of assurance on the financial statements to will be provided.~~
- The financial statements **will not be** (have not been) reviewed or audited

- **No opinion or any other form of assurance on the financial statements is (or will be) provided**
- Acknowledgement of management’s representation and agreement that the financial statements **will are not to** be used by third parties
- The **engagement financial statements** cannot ~~to~~ be relied upon to disclose errors, fraud, or illegal acts.

The communication should also include the following additional matters, if applicable:

- ~~Substantially all disclosures (and the statement of comprehensive income, statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted.~~
- Material departures from GAAP or OCBOA may exist and the effects of those departures, **if any**, on the financial statements may not be disclosed.
- **Substantially all disclosures (and the statement of comprehensive income, statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted.**
- Lack of independence.

Additionally, we believe that the communication requirements listed in the last box of Appendix A should be revised to indicate that the three items are alternatives. The last item should also have a footnote reference to footnote 4.

Appendix D

The title of Appendix D indicates that the same language would be used for both the engagement letter and the letter to management. We do not believe this was the intent of the proposed amendment. Separate examples should be provided for the engagement letter and the letter to management.

The last sentence in the second paragraph (numbered 1) of the illustrative letter indicates that the financial statements will not include a report. Using this language implies that the report would be an integral part of the financial statements. We believe the following change should be made to distinguish the report from the financial statements:

1. We will perform the following services: We will compile, from information you provide, the (monthly quarterly, or other frequency) financial statements of XYZ Company for the year ended 20XX. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We will not review or audit the financial statements and, accordingly, will not express an opinion or any other form of assurance on them. The financial statements will not be **accompanied by include** a report.

The last sentence of the third paragraph (unnumbered) of the illustrative letter uses the language “are not intended for third party use.” We believe that an explicit statement should

be made that the company will not provide the financial statements to third parties. Therefore, we suggest the following changes:

Based upon our discussions with you, these financial statements have been designed to meet your needs in managing your business. Accordingly, these statements are for management's **internal** use only and **will not be provided by the company to third parties** ~~are not intended for third party use.~~

The fifth paragraph (unnumbered) of Appendix D includes an option to list those specified parties who may use the financial statements. As Appendix D is only applicable if the compiled financial statements are not intended for third party use, this optional paragraph does not make sense unless this parenthetical instruction is intended to refer to a listing of the specific members of client management. Therefore, the paragraph should either be eliminated or it should be revised to refer to management as follows:

[The financial statements are intended solely for the information and use of [include list of specified **members of management parties**] and is not intended to be and should not be used by anyone other than these specified **members of management.** – optional]

The last five paragraphs should not be indented; otherwise, they appear to relate to the discussion of other services.

William J. Cloppert
Richard L. Batterberry
Charles E. Landes
Alan E. Bieber
Steven P. Hube



78

James A. Donnellon
Laura N. Brunner
Bradley S. Chaffin
Alvin B. Dennig, Jr.
Adam G. Feld

June 26, 2000

Ms. Kim Gibson
Audit and Attest Standards
File 2200
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036

Dear Ms. Gibson;

Thank you for the opportunity to comment on the Proposed Statement on Standards for Accounting and Review Services 1. We apologize that our response did not meet the June 9, 2000 deadline, but we hope that our comments will be considered prior to the final standard.

We applaud the committee for their perseverance in looking for an answer to the practice problems associated with a CPA's association with a compilation, as currently defined. While we agree in principle with the approach taken by the committee, we ask the committee to reconsider the concept of submission.

The draft statement sets up the concept of *submission of financial statements* in order to help delineate when a compilation report is required. A compilation report would be required when the CPA "submits financial statements . . . used by a third party." However, the concept of submission (a) unnecessarily clouds the issue of who is responsible for the financial statements by almost suggesting that the financial statements are those of the practitioner, (b) dangerously subjects the practitioner to privity issues by suggesting that an accountant might submit financial statements directly to a third party, and (c) overly complicates when a report is not necessary by introducing another problematic term (submission) when it is not needed.

We believe that the desired results can be achieved without having to introduce this new concept. The AICPA should never suggest that a CPA practitioner submit or present financial statements directly to a third party. Additionally, the AICPA should never suggest that the financial statements are the responsibility of the practitioner.



441 Vine Street, Suite 2000 ■ Cincinnati, OH 45202 ■ Tel: (513) 241-8313 ■ Fax: (513) 241-8303
www.barnesdennig.com

MEMBER, POLARIS INTERNATIONAL

Ms. Kim Gibson
June 26, 2000
Page 2

Alternative language is as follows:

.01 This Statement sets forth the performance and communication requirements when an accountant compiles or reviews financial statements of a nonpublic entity.

a. Compilation of financial statements. If the accountant performs a compilation, a communication to management is required. The type . . . following:

1. Compiles financial statements that are, or reasonably might be expected to be used by a third party or engaged to report on compiled financial statements. See paragraphs .12-.20 for reporting requirements.
2. Compiles financial statements that are not expected to be used by a third party. See paragraphs .21-.24 for required communications to management.

.02 The accountant should not compile financial statements of a nonpublic entity unless, as a minimum, he or she complies with the provisions . . . engagement.

.05 [delete the submission definition]

.12 When the accountant compiles financial statements that he or she reasonably expect to be used by a third party or is engaged to report on compiled financial statements, the financial . . . that-

.21 When an accountant compiles financial statements that are not expected to be used by a third-party, he or she should:

Again, thank you for your consideration. Any questions regarding our comments should be directed to the undersigned.

Sincerely,



Charles E. Landes
Director Accounting & Auditing

**CALIFORNIA BOARD OF ACCOUNTANCY**

2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.dca.ca.gov/cba>



#79

June 23, 2000

Sherry Boothe
Audit and Attest Standards, File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

At its June 12, 2000, meeting, the California Board of Accountancy considered the AICPA's Exposure Draft related to an Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements. The California Board is in support of the proposal.

Thank you for this opportunity to provide comments after the June 9, 2000, deadline.

Sincerely,

Carol Sigmann
Executive Officer

c: Members, Board of Accountancy

#80

- GEORGE M. PARKER,
ACCOUNTANT
ENROLLED TO PRACTICE BEFORE
THE INTERNAL REVENUE SERVICE
- MEMBER NATIONAL SOCIETY OF
PUBLIC ACCOUNTANTS
- MEMBER GEORGIA ASSOCIATION
OF PUBLIC ACCOUNTANTS
- ACCOUNTING
- BOOKKEEPING AND
WRITE-UP
- TAX SERVICES AND
REPRESENTATION
BEFORE IRS
- MANAGEMENT ADVISORY
SERVICES
- FINANCIAL PLANNING
- INVESTMENT PLANNING
AND COUNSELING

GEO. PARKER & ASSOC, INC.

(404) 378-8837

ACCOUNTING AND TAX CONSULTANTS
SUITE 304
235 EAST PONCE DE LEON AVENUE
DECATUR, GEORGIA 30030

May 16, 2000

Ms Sherry Boothe
Audit and Attest Standards
File 2000
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms Boothe:

Re: Proposed Statement on Standards for
Accounting and Review Services:
Amendment to Statement on Standards for
Accounting and Review Services 1,
Compilation and Review of Financial
Statements
Issued: 12-31-99
Comment Deadline: 6-9-2000

The following are comments concerning the above Exposure Draft (ED).

The Exposure Draft Process

Two written requests by me to obtain a copy of this Exposure Draft (ED) have been ignored. To this day, I still have not received a copy of the ED requested. Trying to obtain a copy of the ED from the AICPA web site was also impossible.

Accordingly, what we have is a "privately issued"

"public" Exposure Draft. One that only a limited number of AICPA members can respond to. The public, the folks most affected by this ED, and other Accountants, whether by design, accident, or indifference, was not to be included in this "due process" form of deliberation.

My comments relate to the article that was published in the Journal of Accountancy (JA) April 2000.

About the Exposure Draft

As I understand the ED, by the Accountant having an Engagement Letter (EL) with his client for an Internal Use Only (IUO) or Management Use Only (MUO) financial statement, the Accountant could issue a "White Paper" financial statement to his client.

An Accountants Report would not normally be used. The EL would specify the scope and restrictions of the financial statement. The Illustrative Engagement Letter or Letter to Management (Exhibit 2), states in brackets [The accountant may wish to identify known departures].

Well here they are. They're Accounts Receivable, Accounts Payable, Inventory, Classifying Expenses as Assets, and Assets as Expenses, and inclusion, or omission of depreciation depending on what results the client is hoping to achieve.

The EL of course would not have to list these items.

Way! The Accounting and Review Services Committee (ARSC) has finally found a way to lower the standards, have independent accountant "association" with the financial statements, and the client be able to say what he wants to!

Neat! (I'm reminded of the old 1950's cigarette jingle, . . . they said it couldn't be done. . . . they said nobody could do it!) Well ARSC found a way!

Now the client gets to take his plain paper financials to the bank, or other lending party, tell them these are his financial statements and that his accountant is [here you get to put your name in] and he's looking for a loan.

If the bank does call, you'll be glad to tell them, yes

that's your client, that you did look them over, but, the financial statements were intended to be an IUO per the EL that you have.

The ED even provides an "Escape Hatch" for the Accountant with integrity. Since the financials now have the "aura" of "known" independent accountant association, if he issues an Accountants Report, he must identify those "known" departures stated above. There will probably be two such financial statements issued in the whole United States. Naturally, if the client wants "known" association by the independent accountant, he will at least want a regular compilation, no disclosures.

The really neat part, especially for the Accountant that didn't know how to prepare a financial statement to begin with (ahhh come-on, you know the ones, they're the ones that couldn't pass a peer review for a compilation, no disclosure, gaap, or ocoboa financial statement on a hot dog cart, you've got them right there in your own state association, that's right, some of them still using single entry) is that we eliminated that "fourth class" term "Assembly". Now we've elevated the financial statement up to "third class" status by placing it with a compilation!

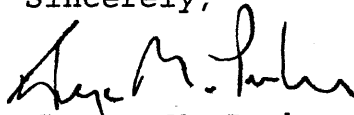
Neat-O! We've got "standards" in place for those that know how to use them. We've got instructional IUO/MUO "guidance" in place with ARSC members names on it, making it "official", for those that don't know how to use standards.

Now the CPA can be truly competitive with Comprehensive and H&R Block! In many cases, the CPA will be able to compete with the person working off the kitchen table that didn't even have a high school bookkeeping course! Who's the CPA that's going to use IUO/MUO's the most? The one that was right there to begin with. ARSC has now "classified" him and found a "niche" for him.

For the innocent client, ahhhh that's all right, he'll settle down, it's only taken a quarter-of-a-century to get him to begin to understand what a compilation was. He'll come around.

This is better than the old song ". . . You can get anything you want, at Alice's Restaurant."

Sincerely,



George M. Parker

COMMENT LETTER #81

Henricks, Martin, Thomas & Zollars, Ltd.
Certified Public Accountants
3330 E. Indisn School Road
Phoenix, Arizona 85018
(602) 955-8530

To: Accounting and Review Services Committee

We have the following comments on the proposed exposure draft for modifications to Statements on Standards for Accounting and Review Services No. 1.

Our firm is a local accounting firm located in Phoenix, Arizona. The firm has four CPAs and two other staff accountants. As would be expected from a traditional firm our size, we do a large number of compilations and reviews, as well as have a significant tax practice. We are all members of the AICPA, and the firm is a member of PCPS.

PARAGRAPH .05 COMMENT

We have serious concerns about the trigger mechanism for preparing a compilation that exists under SSARS No. 1 both as it currently exists and as it is proposed to be modified. As you are aware, under both standards a CPA must, at a minimum, compile a financial statement if the CPA submits a financial statement to the client.

The proposal in paragraph .05 proposes to limit the definition of submit to the following:

Submission of financial statements. Presenting to a client or third parties financial statements that the accountant has generated either manually or through the use of computer software.

In the April 2000 edition of the Journal of Accountancy, two members of your committee authored an article that explained that the above change, which removed the requirement to report if an account "materially modified" the financial statements, effectively removed the responsibility of a CPA to compile financial statements if he/she posted journal entries to a client's computerized database.

While we are in favor of the result proposed, we don't believe that this result is accomplished with the changes that have been made. We have concerns based upon prior guidance issued by the AICPA in this area. Specifically, we refer the Committee to page 15 of the Compilation and Review Alert -- 1997/1998. In that case a CPA who enters adjustments to the client's database, prints out a financial statement which is NOT given to the client but leaves the client with the ability to print out statements is deemed to be required to report. The CPA is deemed to be required to perform a compilation and the reason given is as follows:

"By causing the computer to create adjusted financial statements, the accountant has *generated* (emphasis added) financial statements."

This AICPA document which was issued in 1997 triggered many of the concerns about forcing compilations in cases where the CPA adjusts the database. Note that the above logic would appear to apply just as effectively to the new paragraph .05, since the conclusion of the Alert was that the CPA had *generated* financial statements. The triggering event was not that the CPA had materially modified the statements (which does not exist under the new standard) but rather that the CPA had generated statements (which does trigger SSARS under the exposure draft).

If the committee's goals in releasing this exposure draft are properly reflected in the Journal of Accountancy article, then it appears that this statement is not adequate to accomplish that goal unless we accept that the 1997/1998 Compilation and Review Alert is in error in its justification for the need for reporting.

While recognizing that this "definition" of generated is not an official definition, the reality is that this document was released by the AICPA staff specifically to help explain SSARS No.1. Both CPAs and other parties, including plaintiff's attorneys, may reasonably turn to this document to help define what the Committee meant by generated. Since the new SSARS continues to use the word "generated" without any definition or any apparent change from the prior usage, we have serious concerns that the 1997/1998 Risk Alert definition will continue to be used.

At a minimum, we would suggest that the Committee needs to explicitly state that modification of a client database by itself does not equate to the generation of a financial statement, even if the CPA prints a statement, so long as that statement is not delivered to the client. Because the AICPA staff has published a document that defined the above activity as the generation of a financial statement, we believe the Committee must explicitly address this issue.

Going beyond this, we would strongly suggest that any attempt to apply a trigger is going to create problems for SSARS as the accounting world changes. At this point in time, we strongly believe that the only rational trigger would be one based upon when a CPA is engaged by a client to perform a compilation service. As the way that CPAs conduct business change through technological and other changes, any action related trigger will become dated and in need of regular changes by the Committee.

While some are concerned that if CPAs are not required to compile statements that no compilations will be performed. We find this argument unpersuasive for two reasons. First, we think it severely underestimates the value that many clients and users find in compilations, and that those clients and users will still have a demand for compilations performed by competent CPA firms.

Second, and more important, we don't see the moral case for forcing clients to pay for a service if, in fact, neither clients nor end users see a need to demand the service. While "protection of the public" may be claimed as a reason to do this, we find it difficult to understand why the public needs "protection" from itself, especially when the public is not protected from statements prepared by individuals that face no regulation or professional standards.

The only justification we can see is that forcing this level of service might be seen as protecting the income stream of CPAs that want to be able to "sell" this service by simply claiming they must perform it. However, even evaluated solely from that perspective, the losses to CPA firms by being forced to perform this service when bidding for services where the client has no interest in seeing a compilation performed.

The existence of a number of exemptions from SSARS for various services (tax, litigation support, financial planning and, if the exposure draft is adopted, business valuation) indicates the problems that SSARS creates. Additionally, all of those exemptions provide plenty of evidence about the public's ability to absorb financial information from CPAs without needing a compilation report attached to it.

On behalf of our firm, we ask that you consider the issues raised above.

HENRICKS, MARTIN, THOMAS & ZOLLARS, LTD.

Edward K. Zollars, CPA



#82

**DEPARTMENT OF COMMERCE AND INSURANCE
TENNESSEE STATE BOARD OF ACCOUNTANCY
DAVY CROCKETT TOWER, 2nd FLOOR
500 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-1141
615-741-2550 OR FAX 615-532-8800**

June 29, 2000

Sherry Boothe
Audit and Attest Standards
File 2000
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Boothe:

We have finally had our Board review the Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements dated December 31, 1999. Our Board discussed this matter at our June 26, 2000 Board Meeting. David Curbo, Vice Chairman of the Board submitted the attached E-mail to us for discussion. Our Board decided to place Mr. Curbo's memo on record as the response from our Board. Please consider it as part of your records in this matter.

Thank you. Sorry we are late but only now had time to discuss the matter as the Board only meets quarterly.

Sincerely,

Darrel E. Tongate, CPA
Executive Director

From: "David A. Curbo" <dcurbo@cannoncpa.com>
To: "Darrel E. Tongate CPA (E-mail)" <dtongate@mail.state.tn.us>
Date: 5/26/00 12:12PM
Subject: Exposure Draft re amendment of SSARS to allow compilations not intended for use by third parties

I have read the exposure draft and have mixed feelings about it. I would say my basic philosophy is that the CPA designation should denote a special level of skill and training. "The public" relies on the certification as evidence that any CPA has at least this minimum skill and training level. Certain activities may be incompatible with the presentation and support of this image. By performing these activities the CPA sends a message to the public that he/she is actually at a lower skill level than the CPA designation implies. Further, I feel that the State Board of Accountancy and other CPA professional organizations should endeavor to strengthen accounting rules so that sub-standard performance is clearly defined as substandard and appropriate actions are taken by professional organizations.

However, I see a big distinction between clearly defining the professional requirements of various services and prohibiting them. For example, I feel a practitioner should be prohibited from performing the actions necessary to issue a compiled financial statement and calling it an audit; but I don't think he/she should be prohibited from performing a compilation.

This standard lowers the level of services necessary to issue a financial statement if the statement is not expected to be used by third parties. That immediately raises the issue of deceit by either management to the CPA or by the CPA. However, the exposure draft includes several protections related to lack of integrity. First, it requires a written understanding in some detail including specifying the report cannot be given to third parties and encourages the authorized users be named. Second, it requires each page be marked restricted and as an example uses "Restricted for Management's Use Only." Lastly, the exposure draft specifies that if the accountant becomes aware that the restricted financial statements have been provided to third parties the accountant should request that they be returned and, if this is not done, the accountant should notify the known third parties that the financial statements are not intended for third-party use. The reference to consultation with the CPA's attorney is confusing but probably necessary.

To summarize my feelings on this exposure draft, I feel it may not be a wise decision by some CPA's to provide this level of service but feel that they should not be prohibited from doing so. I believe there is a demand for this type of service in the community. I feel that the exposure draft provides sufficient protections that users of these financial statements should not be confused, if they are in the group for which the financial statements are prepared. Lastly, I feel the protections to the public are adequate if these financial statements "not intended for use by third parties" are provided to third parties. I do think that some additional guidance for this situation may be necessary but haven't concluded whether it should be in the form of guidance in the pronouncement or punishment for failure to take the actions required by the exposure draft.

Lastly, I think the early application should not be allowed because many state rules will not comply with this pronouncement and time should be given to allow states to clarify whether they will accept (and thus change their rules) or reject the pronouncement (and thus have to publicize the fact that

this is allowable under professional standards but not under state law.)

CC: "Mike Vaughn (Business Fax)" 615 <Mike.Vaughn@+1.377-6688>



California Society

June 15, 2000

Certified Public Accountants

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Reference: Proposed Statement on Standards for Accounting and Review Services

- An Amendment to State on Standards for Accounting and Review Services 1, Compilation and Review

Dear Ms. Boothe:

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (the Committee) has discussed the above-referenced exposure draft and has a comment on it.

The Committee is the senior technical committee of our state society. The Committee is composed of 40 members, of whom 12% are from national CPA firms, 54% are from local or regional firms, 23% are sole practitioner in public practice, 8% are in industry, and 3% are in academia.

It is the opinion of the Committee that the exposure draft should not be issued as a standard. The Committee strongly believes that a primary consideration in the drafting of any pronouncement should be protection of the financial statement user. If this draft were to be issued, the Committee feels that financial statement user who are not members of management would be put at risk for the following reasons:

- The CPA's ability to regulate the actions of clients is very limited. History has proven that the use of "Internal Use Only" financial statements was abused. The Committee perceives that history will repeat itself and that financial statement users will be misguided by the fact that a CPA was involved with preparation of the financial statement(s).

- Under present standards, there are three levels of financial reporting, compilation, review and audit. Although these levels have been the standard since 1978, many financial statement users do not understand the differences in each of the three levels today. There is a high degree of probability that this proposed option will be misconstrued as a fourth level of service thereby contribute to a degradation of the public's confidence in the CPA profession.
- A substantial number of the financial statements issued under the proposed standard are likely to contain GAAP departures or to have been prepared using OCBA. Present standards require that the CPA address those GAAP departures in his compilation report. Though the proposed standard requires that GAAP departures be addressed in a communication to the client, this affords no protection to the financial statement user who is not a member of management.

In the event the Accounting and Review Services Committee feels compelled to go forward with this draft, we feel the following points need clarification:

- The draft proposal allows the CPA the option of obtaining a signed engagement letter from management documenting the nature of the service and the limitation on the use of the financial statements or merely issuing a letter to management documenting the nature of the service and the limitations on the use of the financial statements. The Committee feels that the proposal should require a signed affirmation from the client. In addition to affording a greater degree of protection to the CPA in case of litigation, the signed affirmation may serve to heighten management's understanding of the limitations on the use of the financial statements.
- Under the draft, the type of communication issued by the CPA to the client depends on whether or not the financial statements "reasonably might be expected to be used by a third party." The term "reasonably expected" is subject to wide variations. Consideration should be given to defining this term.
- Section 1.24 of the draft standard discusses the steps the CPA should take when he becomes aware that the financial statements have been distributed to third parties. The guidance in this section could be improved by addressing, clarifying, or adding the following:
 - The term "reasonable period of time" is susceptible to a wide interpretation. The term should be defined.

Ms. Sherry Boothe
Audit and Attest Standards, File 2000
American Institute of Certified Public Accountants
June 15, 2000
Page 3

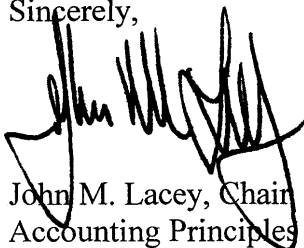
- The CPA's right to contact third parties directly when a client disregards the intended limitations on the use of the financial statements should be addressed in the engagement letter. The Committee suggests language such as "if I (we) become aware of the fact that these statements are being used by a third party, we have your permission to contact the third party directly and inform him of the restrictions on the use of the statements."
- Guidance should be provided as to the extent of the CPA's responsibility to determine if there are additional third parties in possession of the financial statement when he becomes aware of the fact that a third party is in possession of the financial statement.

The above comments should not be misconstrued as a change in the Committee position with respect to this proposed standard. We feel it is vital that a standard not be issued that puts the investor and third party at risk or has the potential to jeopardize the public's trust in the profession.

Even with inclusion of the points discussed above, the Committee feels that the draft proposal is not in the best interest of the public or the profession.

Thank you for the opportunity to comment on the proposed Amendment. Please let us know if you have any questions or require additional information.

Sincerely,



John M. Lacey, Chair
Accounting Principles and Auditing Standards Committee

July 10, 2000

Kim Gibson, Technical Manager
Audit and Attest Standards and Services
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File No.2000

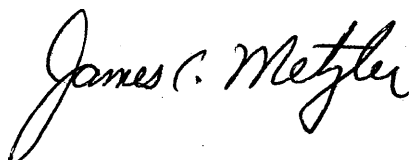
Dear Ms. Gibson:

This letter responds to the AICPA Accounting and Review Services Committee (ARSC) request for comment in its Exposure Draft (the Draft) on Amendment to Statement on Standards for Accounting and Review Services 1, *Compilation and Review of Financial Statements*.


Technology has made a significant impact on the practice of certified public accountants (CPAs) who perform compilations and reviews as well as those who perform other services for clients that would potentially be subject to the provisions of the Statement on Standards for Accounting and Review Services (SSARS). Because of the interaction of technology and the services governed by SSARS, we have the following comments on the proposed amendment to SSARS 1 issued on December 31, 1999.

The Information Technology Executive Committee appreciates the opportunity to submit its comments and would be pleased to discuss them with you at your convenience.

Sincerely,



James C. Metzler
Chair, ITEC



Edward Zollars
Chair, Task Force

American Institute of Certified Public Accountants
1211 Avenue of the Americas, New York, NY 10036-8775 • (212) 596-6200 • fax (212) 596-6213 • www.aicpa.org

ISO9001 Certified

Technology's Impact on Compilation and Review Services

In the past two decades, there has been significant growth in the use of computerized accounting systems by small privately held businesses. There also has been a significant change in the sophistication of the software used by and marketed to these companies that lack internal staff possessing any significant formal accounting training. When SSARS 1 was first issued, many of these businesses were simply unable to produce anything remotely resembling a financial statement from their internal systems. Today, a large percentage of businesses are able to generate financial statements that on the surface appear professionally prepared, regardless of their staff's level of accounting sophistication.

Additionally, CPAs have become more and more involved with information systems consulting, implementing both accounting and non-accounting related systems for clients. The AICPA itself has encouraged CPA involvement in technology consulting and has named technology services as one of the core services as part of the CPA Vision project.

The compilation standards are somewhat unique in the professional reporting standards in that a CPA is required to perform the service even when not engaged to do so if the CPA performs certain tasks. To be precise, SSARS 1 prior to the changes proposed in this exposure draft requires a CPA to issue a compilation report whenever the CPA "submits" a financial statement to a client. If a CPA submits a financial statement to a non-publicly traded client, at a minimum, a compilation must be performed in accordance with professional standards. This is true even if, the client indicates that they do not want the service performed; there is no intention on the part of the client to allow outsiders access to the submitted statement; or there is no intention to indicate to any user of the statement that the CPA firm had involvement with the statement.

This combination of technologically driven changes put stress on the old SSARS structure, resulting in confusion over when a CPA had "submitted" a financial statement to a client and whether such a submission could occur accidentally as part of the performance of engagements that were not viewed by either party as involving any sort of assurance service on the part of the CPA. Similarly, technology combined with a literal reading of SSARS 1 seemed to provide loopholes to avoid reporting by CPAs who carefully structured their engagements; even though it appeared likely that the statement would be used by outsiders and those outsiders would be aware of the CPA's involvement with the statement.

Some commentators asserted that SSARS 1 and technological changes had created a "push the button" standard for reporting where the key factor was whether the CPA or the client's personnel had actually issued the command that caused the financial statement to be produced.

Compilation and Review Alert—1997/98

In response to this situation, the *Compilation and Review Alert—1997/98* provided unofficial guidance on when a report was required and counteracted the impression of a “press the button” standard. Table 2 of that document contains a list of fact situations that a CPA might find him/herself involved in, a determination of whether SSARS No. 1 required reporting in that situation and a citation for a reference to the position taken.

Of particular concern to those involved in technology consulting was the finding in the sixth example listed in that table. In that example, a CPA entered adjustments into the client’s “financial statement database,” prints the adjusted financial statement out and takes the statement with him/her and does not give them to the client. The example indicates that the client’s software would allow the client to regenerate those statements if they decided to do so, but there is no indication that the client did or didn’t plan to generate such statements. The case provided that the CPA had a reporting requirement under SSARS No. 1. The reference column did not refer to any paragraph of SSARS No. 1, nor any official interpretation of SSARS, but instead contained the statement that “By causing the computer to create adjusted financial statements, the accountant had generated financial statements” and that was sufficient reason for the act to be treated as submission of the financial statement under SSARS No. 1.

In the eighth example, a CPA meets with the client’s bookkeeper and discusses deficiencies in the client prepared financial statements. The CPA gives the bookkeeper the adjusting entries but does not actually make entries into the system. The bookkeeper makes the entries and hands the CPA a copy of the computer-generated statements. The CPA approves the statements and tells the bookkeeper no further adjustments are required. The bookkeeper gives the CPA and the client a copy of the adjusted statement and the CPA discussed this statement with the client. In this case, it is determined that no reporting requirement is triggered per SSARS No. 1.

These examples caused concern for CPAs practicing in the technology arena, since the answers could be read to suggest that if the CPA makes any changes to a database that could be involved in the generation of a financial statement, the CPA would have a reporting requirement under SSARS No. 1. With such a reporting requirement, the CPA would have to:

- Evaluate the stated qualifications of the client’s accounting personnel
- Come to an understanding of the client’s industry sufficient to meet the SSARS No. 1 standards
- Determine any departures from a measurement or disclosure perspective that the computer-generated statement may have, based on reading the financial statement and other knowledge he or she may have and then create a report describing such departures.
- Find a way to attach this report to a statement generated by the system, which means he or she would have to actually generate such a statement and give it to the client.

These requirements put the CPA technologist at a disadvantage as compared to his/her non-CPA counterpart when serving non-public companies. Due to the interrelationship of databases in modern information systems, it is often not clear when the CPA is adjusting information that might have an impact on the financial statements in some manner.

Additionally, quite often a consultant working with the client will need to correct obvious errors when translating data from one system to another or when correcting problems in the system. The client expects the consultant to make those changes and, in fact, is often unable to make the changes. The client also does not want nor does the client believe they have engaged the CPA to perform a compilation.

If carried to its logical extreme, a CPA that accesses the e-commerce web site of a client to purchase goods from the client in the ordinary course of business could arguably be required to issue a compilation report. That is because the CPA's order may very well cause entries to be made to the accounting system without client intervention—and, in fact, in a well-designed e-commerce system that's exactly what would happen.

This problem is what we will refer to as the “accidental compilation” as part of a technology engagement.

Similarly, the eighth example seemed to create a significant loophole for a CPA engaged solely to advise the client on their financial statements and reporting. In that case, because the CPA did not physically make the journal entries but rather gave them to the bookkeeper to make, the CPA removed him/herself from any reporting requirement. Note that the CPA in this case did make specific representations to the client about the sufficiency and adequacy of the financial statement and the client clearly believes the CPA has granted some sort of assurance (even if not in the professional sense) on these statements.

The New Exposure Draft

The exposure draft that was issued on December 31, 1999 makes some changes to this structure. Generally, we see the changes as improvements that help to address some of the issues raised. However, we believe that even after these changes that the statement doesn't go far enough to eliminate possible problems. Also, we believe that future developments in technology may render this statement obsolete in the future and question, based on history, whether changes can be made to these standards on a timely basis so long as there is a “must report” standard based on criteria other than what the client has engaged the CPA to perform.

Presenting a Financial Statement to a Client

One of the major changes in the exposure draft is the addition of a definition of what constitutes the submission of financial statements, which is added at paragraph .05. Submission is defined as “presenting to a client or third parties financial statements that the accountant has generated either manually or through the use of computer software.”

We are concerned that additional official guidance needs to be given on what will constitute presentation of a statement. Specifically, we believe that official guidance needs to be issued interpreting what impact this change would have on the two examples we discussed above in the *Compilation and Review Alert—1997/98*. We also believe that a clear definition needs to be outlined to show what constitutes a presentation to the client, especially in the area of “through the use of computer software.”

We suggest that guidance be given on where in the continuum of possible delivery methods by the CPA there would or wouldn't be a requirement to issue a compilation report.¹

- The CPA hands the client a set of printed financial statements prepared by the CPA.
- The CPA hands the client a disk or CD-ROM containing an *Adobe Acrobat* or similar portable document format file containing financial statements.
- The CPA hands the client a disk containing a word processing document that has a financial statement in it.
- The CPA hands the client a disk containing a spreadsheet file that contains financial statements.
- The CPA hands the client a disk containing a word processing document that links to a spreadsheet file and creates financial statements from pulling data from the spreadsheet file provided to the client separately.
- The same case as above, except now we are in later reporting periods when the CPA only provides the client with the spreadsheet file that, by itself, contains no financial statement.
- The CPA receives the client's financial statement database (say in *QuickBooks* format) via electronic mail. The CPA makes journal entries directly to the database and then transmits the adjusted database back to the client via electronic mail.
- Same as previous, except that the CPA, instead of transmitting back the database, instead sends a data file that contains only the adjustments. The client then applies those adjustments to their own database.

¹ We recognize that paragraph 21 of the exposure draft would provide an exception to the compilation report in some cases. However, the CPA would still need to comply with some additional procedures required for paragraph 21 engagements as well as placing a legend on the financial statements—which again could require the creation of financial statements by the CPA when the client did not intend for the CPA to perform such work.

- Same as previous, except that the CPA transmits the information in paper form or in an electronic format that cannot be directly imported into the database. The client must manually input those items into their database.
- Same as previous examples, except that the database transmitted to the CPA is one like the *QuickBooks* accountants' copy that provides only a snapshot of the database and cannot be used by the client even if transmitted back to the client. The program would allow a file to be generated of the changes and those changes imported.
- A CPA is an employee of a firm² that provides general ledger services over the web as an application service provider (ASP). The CPA is charged with general supervision and training of unlicensed staff, but does not have direct contact with customers of the firm. The unlicensed staff provides support services to the customers, and those services include, at times, walking the clients through making entries to their database and, at times, modifying such database. The ASP ledger system allows the creation of financial statements on demand as web pages, and the staff also shows clients how to cause such statements to be generated and, from time to time, actually creates the statement for the client.
- The same as above except that the CPA in question works only as a member of the internal accounting staff and only on rare occasions has involvement with the customer support staff.
- In relation to the next section of this comment letter, a CPA firm provides clients' ledger services accessible via the Internet. The client accesses their data via a secure connection over the Internet controlled by user names and passwords issued to the client. Once into the system the client can generate financial statements on demand. The client can also allow outsiders to access their information in that database and the outsiders can similarly generate a real time financial statement.

Expected Technology Changes to Presenting Financial Information

We also think that official guidance needs to be considered about the online delivery of financial information. The AICPA Top Ten Technology Issues for 2000 identified electronically based financial reporting as one of the top ten issue facing the profession. The AICPA has also spearheaded the XBRL (formerly XFRML) project to create, per the XBRL web site, "an open specification which uses XML-based data tags to describe financial statements for both public *and private companies* (emphasis added)."

² For purposes of this example, it may be useful to answer the question for two separate cases. In one case, the firm in question is a licensed public accounting firm or a firm that represents to the public that it provides services similar to a traditional CPA firm. In the second case, the firm in question is not a traditional CPA firm, but is a company that provides a number of computer related services of which an ASP ledger is merely one of many computer services offered.

Any definition of financial statement presentation needs to take into account the potential impact of electronically-based financial reporting or we will face problems similar to the ones that developed as clients began to get access to more advanced accounting software. Also, confusion about the requirement to report will put CPAs at a disadvantage compared to unlicensed individuals in similar engagements. Clients may be forced to accept and pay for services when engaging a CPA that will not be required (or deemed necessary) of others delivering similar services.

Similarly, assuming there is a compelling reason to have compilations prepared in all cases when financial statement information is communicated, such confusion may also allow CPAs to evade reporting in these cases because the specific media and delivery method isn't clearly covered by the standards.

Outcomes such as this will serve to reduce respect for the standard by our profession that is mandated to comply with when the client does not believe he/she is purchasing attest services, by the client who is forced to purchase such services, and by outsiders who feel that CPAs are evading their responsibility on a technicality when the CPA doesn't report.

Finally, it is clear that we cannot predict future technological changes, except to say that we are certain such changes will occur. It is imperative that, if the Committee insists on having a standard that is triggered by anything other than what the client engages the CPA to perform, that a system be in place to *rapidly* react to changing circumstances involving financial reporting in private entities and that this Committee must commit to proactively search for potential developments that might impact the standards. Unlike other reports, a compilation is unique in having a performance - as opposed to engagement - based trigger mechanism for reporting, so this Committee cannot rely on the work of other senior technical committees (such as the Auditing Standards Board) to handle issues in this area.

Recommendation for an Engagement Based Standard

We believe the only effective long-term solution to the compilation problem would be to change the standards to require CPAs to report on financial statements only when specifically engaged to do so by a client. In all other engagements, the CPA could be required to obtain an engagement letter where the client specifically agrees that they understand the CPA is not performing a compilation, review or audit of any financial statements unless the CPA has agreed to do so. Additionally the client agrees not to use the CPA's name in association with such financial statements unless the client engages the CPA to perform, at a minimum, a compilation of the financial statements.

We believe that, in the long run, this is the only effective solution that won't require the Committee to issue frequent updates and changes to the trigger mechanism in the rules. The trigger mechanism test requires a bright line standard so that CPAs will know when they are or aren't required to report. However, changes in technology mean that any "bright line" standard is going to have to be continually changed both so that it doesn't cause reporting to be required in inappropriate circumstances or allow CPAs to escape reporting in situations where third parties will rely on the statements.

We also believe that requiring reporting in such circumstances discriminates against non-public companies who are covered by SSARS, since they are required to take on additional services that a publicly traded company would not be required to purchase in a similar situation.

Alternatively, if the Committee is not willing to entertain the above change, we request the Committee consider granting technology specialist CPAs a carved out exception to the compilation-reporting requirement. Such carved out exceptions already exist in certain cases for CPAs, most notably in the area of tax reporting. In this situation, documents that present information similar to what is contained in a financial statement are exempted from the reporting requirement. If CPAs involved in tax practice are granted this exception because compilation reporting would be too burdensome (and we agree that it would be), then we believe the Committee should grant a similar exemption to CPA technology consultants.

This exception could require an engagement letter similar to the one we discussed above, with the client agreeing not to use the CPA firm's name in association with any statement generated by the computer system without first engaging the CPA firm to perform, at a minimum, a compilation engagement.

COMMENT LETTER #85

To: Accounting and Review Services Committee
From: Chas McElroy
Date: 07/12/00
Re: Comments on Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements

Please consider the following comments on the Exposure Draft.

Paragraph 3

In practice there is a question that gets asked frequently; "If I'm engaged to issue a compilation and end up doing review or audit level work, am I required to issue the highest level service?" I think the answer is; "No, if I was engaged to compile I can issue the compilation."

I suggest paragraph 3 be expanded or footnoted to make this clear.

Paragraph 5

The concept of "knowledgeable management" may cause some problems in practice of small businesses. Once we issue the financial statements to management that has engaged us, it should be their responsibility to explain the financial statements to other management members. I'm not sure it will be practical for clients to restrict them internally. I do think it makes sense and the concept works external to the client. If you leave it in, I would suggest making footnote 3 part of the definition under third party. I think some practitioners will overlook the information "hidden" in the footnote.

Paragraph 21

I suggest dropping the third bullet as an option. What is the advantage of it to the client or the practitioner? This is an important principle for this service. Why not require practitioners to get it in writing from clients?

Paragraph 22

I suggest dropping the last bullet on independence. If we are not issuing a report, why should we require acknowledgement of a lack of independence in the engagement letter? Management is the only user and understands our role. If independence were an issue, they wouldn't engage us.

Paragraph 23

I suggest this paragraph and requirement be dropped. It is a signal that we, as CPA's, have prepared the statements. I also think it is impractical in the electronic world that we add this to a client's statement or require them to. The issue of protecting the public will be handled at the client acceptance and engagement letter end of the engagement.

Peer Review

I understand these engagements will not be part of peer review. I agree that is the only practical answer.

Chas