



National Association of State Boards of Accountancy

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September 6, 2012

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Re: Exposure Draft dated June 29, 2012 – Omnibus Proposal, AICPA Professional Ethics Executive Committee, Proposed Revised and New Interpretations and Proposed Deletions of Ethics Rulings, *Proposed Revised Interpretation No. 101-3 Under Rule 101*; and Exposure Draft dated June 29, 2012 - Proposed Statements on Standards for Accounting and Review Services, AICPA Accounting and Review Services Committee, *Association with Unaudited Financial Statements; Compilation of Financial Statements; and Compilation of Financial Statements-Special Considerations* (collectively, “Exposure Drafts”)

Dear Members and Staff of the AICPA Professional Ethics Executive Committee and Members and Staff of the AICPA Accounting and Review Services Committee:

We appreciate the opportunity to offer comment on the Exposure Draft of the Professional Ethics Executive Committee (“PEEC Draft”) and the Exposure Draft of the AICPA Accounting and Review Services Committee (“ARSC Draft”). The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. In furtherance of that objective, we offer the following comments on the Exposure Drafts.

Comments on the ARSC and PEEC Drafts

Effective Dates

We suggest that the effective dates of the Exposure Drafts be made the same date, December 15, 2014. Early adoption of the ARSC proposal should not be allowed since dual standards operating simultaneously may cause regulatory and public confusion.

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Comments on the ARSC Draft

Association With Unaudited Financial Statements

NASBA believes a public protection issue is inherent in the “Proposed Statement on Standards for Accounting and Review Services, *Association With Unaudited Financial Statements*” (the “Proposed Statement”).

As a matter of principle, we believe that a financial statement user should be able to clearly understand the CPA’s role in the preparation of financial statements. We are concerned that this principle is not advanced when Paragraph 5 (Definitions) of the Proposed Standard says, in part, that an accountant is associated with unaudited financial statements when (5b): “...the accountant prepares, in whole or in part, financial statements, even though the accountant does not append the accountant’s name to the financial statements.”

Paragraph 7 of the Proposed Standard says: “When the accountant is associated with unaudited financial statements for the reasons described in paragraph 5b, the accountant should request that the entity clearly indicate that the financial statements were not compiled, reviewed, or audited.”

The Proposed Standard does not preclude the accountant from attaching a report to the unaudited financial statements and suggests wording to “clearly indicate that the accountant has not compiled, reviewed, or audited the financial statements” and state that the accountant does not express an opinion or any form of assurance on them. However, the Proposed Standard does not require that a report be issued by the accountant.

We strongly recommend that Paragraph 4 be changed to require that the accountant attach a report to the unaudited financial statements and that the report’s wording include the following:

“We (I) have prepared [assisted in the preparation of] the financial statements of [Entity Name]. The financial statements as of and for the year ended December 31, 20XX, were not compiled, reviewed, or audited and, accordingly, we (I) do not express an opinion or any form of assurance on them.”

Also, each page of the unaudited financial statements should also include the legend: “See Accountant’s Report.”

Paragraph 6 of the Proposed Standard requires the accountant to apply certain procedures to unaudited financial statements that the accountant is associated with (as described in Paragraph 5a). Paragraph 6 is silent on financial statements that the accountant has prepared (as described in Paragraph 5b). We recommend, as a minimum, that the final standard remind the accountant

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that whenever preparing financial statements for clients, that the accountant also is responsible for the appropriate disposition of known errors or other misstatements.

One consequence that may occur as a result of designating “prepare and present” engagements as non-attest engagements is that such engagements will no longer be subject to peer review. We believe that many entities that previously requested compilation services, which are subject to peer review, may request that the accountant perform a “prepare and present” engagement and will not request a compilation. Thus, a significant amount of work by accountants may no longer be scrutinized by peer review teams.

We believe that ARSC should address the potential ramifications of this issue within the American Institute of Certified Public Accountants, including its Peer Review Board, prior to proceeding with “prepare and present” engagements.

We believe the proposed requirements for association with non-attest financial statement engagements should include a written engagement letter between accountant and entity. In the engagement letter the entity should agree to inform potential users that the financial statements were not compiled, reviewed or audited.

Compilation of Financial Statements –Material Misstatements

We note that in the ARSC Draft, *Compilation of Financial Statements*, when the accountant is asked to read the financial statements, the accountant is to consider whether they are free from obvious material misstatements (Paragraph 3a). However, in Paragraph 14, the accountant is asked to read only for obvious material errors. This appears to us to be an unintended discrepancy in the requirements without a meaningful distinction in the circumstances. Accordingly, we suggest substituting “misstatements” for “error” in Paragraph 14.

Please also consider adding a definition of “misstatements.” While the term “fraud” is included in the definitions section of the Clarified Compilation standard, the terms “error” and “misstatements” are only described in the explanatory paragraphs of A17 and A22. We suggest the terms “error” and “misstatement” should also be included in the definitions.

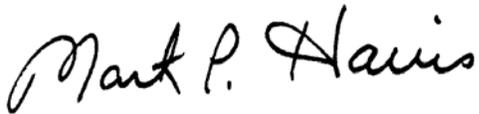
Comment on the PEEC Draft

We support the changes to Interpretation No. 101-3 and to the new interpretations under Rules 501 and 502 in the Code of Professional Conduct.

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We appreciate the opportunity to comment on the Exposure Drafts.

Sincerely,

Handwritten signature of Mark P. Harris in black ink.

Mark P. Harris, CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink.

Ken L. Bishop
NASBA President and CEO