

July 21, 2006

Public Company Accounting Oversight Board  
Office of the Secretary  
1666 K Street, N.W.  
Washington, DC 20006-2803

By e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

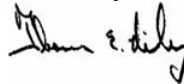
**Re: PCAOB Release No. 2006-004 – Proposed Rules on Periodic Reporting by Registered Public Accounting Firms (Docket No. 019), and PCAOB Release No. 2006-005 – Proposed Rules on Succeeding to the Registration Status of a Predecessor Firm (Docket No. 020)**

Dear PCAOB Board Members:

The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, welcomes the opportunity to comment on the proposed rules of the PCAOB referenced above.

The NYSSCPA SEC Practice and Auditing Standards and Procedures Committees deliberated the proposed rules and have prepared the attached comments. If you would like additional discussion with the committees, please contact Mitchell J. Mertz, chair of the SEC Practice Committee at (212) 891-4048, Robert W. Berliner, chair of the Auditing Standards and Procedures Committee, at (212) 503-8853, or Ernest J. Markezin of the NYSSCPA staff, at (212) 719-8303.

Sincerely,



Thomas E. Riley  
President

Attachment

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

**COMMENTS TO THE PUBLIC COMPANY ACCOUNTING OVERSIGHT  
BOARD ON**

**RELEASE NO. 2006-004 – PROPOSED RULES ON PERIODIC REPORTING BY  
REGISTERED PUBLIC ACCOUNTING FIRMS**

**AND**

**RELEASE NO. 2006-005 – PROPOSED RULES ON SUCCEEDING TO THE  
REGISTRATION STATUS OF A PREDECESSOR FIRM**

**July 21, 2006**

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## **New York State Society of CPAs**

### **Comments to the Public Company Accounting Oversight Board on Release No. 2006-004 – Proposed Rules on Periodic Reporting by Registered Public Accounting Firms (Docket No. 019), and PCAOB Release No. 2006-005 – Proposed Rules on Succeeding to the Registration Status of a Predecessor Firm (Docket No. 020)**

**July 21, 2006**

#### **Comments on Release 2006-04**

##### FORM 2

The Public Company Accounting Oversight Board (PCAOB) should reconsider the requirement to impose a common reporting year ending March 31. This may impose an administrative burden, in compiling the required information, on firms that have a different fiscal year. Furthermore, many firms may not have billed for work done in busy season until some time after the end of busy season. As an alternative, we suggest that the information called for should be hours charged rather than hours billed. This is more indicative of the earnings activity of the firm. Form 1 should be revised as well to reflect this alternative.

We note that the form asks for tax billings as a fourth category of revenue in addition to the three called for in Form 1. We are not clear why the form asks for a distinction in the categories of non-audit services, or what use this information is to the PCAOB. We believe that the Form should use the same categories as required for issuers in their annual proxies.

We also note that information is requested for networks or affiliations of the registered public accounting firm. We suggest that some materiality standard be set because minor affiliations likely will have little impact on a firm's practice.

##### FORM 3

Reporting on criminal and other proceedings, etc. (Items 2.6, 2.8, and 2.9) should not rely on titles but on roles in the audits of issuers. The "associated persons" concept from Form 1 should be used, and would provide for consistency. Also, there should be clarification as to whether the requirement as presently written encompasses individuals in tax, consulting and other roles as well as in audits of issuers. This would go beyond the Form 1 requirement.

Item 2.13 should clarify the meaning of “other arrangements” and whether it includes individuals that “funnel” issuer work to the firm. This is a very common arrangement in the smaller-issuer, smaller-registered firm arena. While there may be no formal compensatory arrangement with such individuals, a significant portion of the issuer work of certain firms comes from such relationships. Such individuals can be in a position to exert significant influence on the firm. Furthermore, it is not unusual for them to have regulatory matters in their past. Such individuals should be included in the reporting under this item, whether compensation is exchanged or not. We suggest that some threshold based on both number of referrals and magnitude of fees should trigger a reporting requirement.

### **Comments on Release No. 2006-005**

#### FORM 4

The requirement for the successor firm to formally acknowledge responsibility for any conduct of the predecessor firm has the potential to significantly erode the successor’s defensive position, without merit, in the event of certain litigation arising from acts of the predecessor. In spite of the exposure draft’s attempt to delimit this responsibility, it provides no support for this delimitation. Such matters can only be known through the results of cases litigated through the judicial system. We believe that the PCAOB may already have the authority to accomplish the same results without requiring this affirmation. This should be examined.

The requirement for “an individual who is a member of the old firm and a member of the new firm... certify that the predecessor ...intended for its registration to attach to the successor firm” is too lax and probably inoperative. This is indicating that any member, no matter how marginal their role in the predecessor, has the power to represent the intent of the entire predecessor firm. This needs to be revised to provide a mechanism that truly expresses the intent of the predecessor by requiring a majority of the predecessor firm’s interests to authorize the certification on their behalf.

There are three “yes” or “no” questions which need to be answered negatively in order to file Form 4 rather than a Form 1 registration. We suggest that a fourth question needs to be asked – whether the successor will adopt the quality control document previously filed (and as amended) by the predecessor registered firm with Form 1. If the answer is “no”, the new quality control document should be submitted. The ability of an audit firm to perform work that complies with PCAOB standards depends, to a large extent, on its formally adopted system of quality control. Systems of quality control vary greatly, particularly among non-registered firms. The PCAOB should add this fourth item.