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February 17, 2009

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

Dear Ms. Macey:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's proposed Statement on Auditing Standards, *Audit Considerations Relating to an Entity Using a Service Organization* (Redrafted).

We have reviewed the proposed statement and generally agree with the provisions in the exposure draft. As requested, we offer the following feedback in response to the questions posed by the ASB:

Questions posed by the ASB

1. *Are the objectives to be achieved by the auditor, stated in the proposed SAS, appropriate?*

The objectives to be achieved by the auditor, stated in the proposed SAS, are appropriate.

2. *Are revisions from the existing standards to converge with ISA 402 appropriate?*

The revisions from the existing standards to converge with ISA 402 are appropriate.

3. *Are the differences between the proposed SAS and ISA 402 identified in the exhibit, and other language changes, appropriate?*

The differences between the proposed SAS and ISA 402 identified in the exhibit are appropriate. However, we have the following concerns with other language changes the AICPA has included in the proposed statement.

- Departing from ISA 402, by moving the first sentence in paragraph 14 from the application material, makes the requirement awkward and less clear in its understanding. We suggest the ASB revise the paragraph to better align with ISA 402 by moving the first sentence back to paragraph A21.
- In paragraph 14.a, the ASB departed from ISA 402 by adding item (2) to paragraph 14.a. Paragraph 14.a.(2) seems to be redundant with paragraph 14.c. If the ASB intended for these two items to be different, then the ASB should add language to make clear what the differences are. Otherwise, we suggest the ASB remove 14.a.(2).
- Paragraph A21.a, which is supposed to contain explanatory or application material related to a requirement, duplicates the requirement in paragraph 14.c. We believe this could result in confusion as to whether this is a requirement or information to assist the auditor in applying the requirement. To differentiate from the requirement, since paragraphs A22 through A25 appear to contain the relevant explanatory information, we recommend the ASB modify paragraph A21.a by replacing "since the performance of the tests of controls." with "as described in paragraphs A22 through A25."

- Paragraph A7 indicates that communications between the user auditor and the service auditor usually occur through the user entity and the service organization. Throughout the proposed standard, the ASB clearly indicates that in cases where the user auditor needs to communicate with the service auditor, the user auditor would communicate through the service organization. However, the last sentence in paragraph A37 does not indicate that the user auditor contacts the service auditor “through the user entity”. We assume the ASB purposely did not include this phrase because, since the paragraph is discussing a case of fraud, it may be necessary for the user auditor to communicate directly with the service auditor. We believe the ASB should clearly make this distinction in paragraph A37.

4. *Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?*

The proposed statement appropriately addresses considerations for audits of smaller, less complex entities and governmental entities.

We have some additional general comments and editorial comments as noted below:

General comments

- Paragraphs 13.c, 14.b, and A21 – For clarity, we suggest revising the phrase “relevant to the user entity” to read “relevant to the user entity’s financial statement assertions” (this would also be consistent with language used in paragraph A19c.). The fact that the service organization has identified the complementary user entity controls assumes they are relevant to the user entity. The importance to the user auditor is whether such controls are relevant to the user entity’s financial statement assertions.
- We suggest the AICPA review its use of the terms “accounting records” and “records” in the proposed standard. Paragraphs A6, A33, and A34 contain examples of the inconsistencies in the use of these terms. We believe in most cases, it is appropriate to use the broader term “records” as opposed to the more restrictive term “accounting records” since, as the standard indicates, the user auditor may need to rely on records other than those that are primarily accounting in nature. This is especially true in the case of governmental audits where the user auditor may rely on information at the service organization for compliance testwork.
- Exhibit A – Many governmental entities use service organizations to act as third-party administrators of self-insurance programs, whereby the service organization processes claims. It may be helpful to revise the next to the last bullet to mention this type arrangement given the frequency with which this arrangement occurs.

Editorial comments

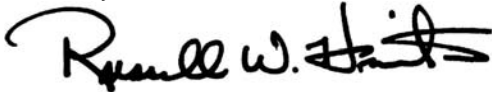
- Paragraph 8 – Item c. under the definition of the term “Report on a description of a service organization’s system and the suitability of the design of controls” refers to “an opinion on the matters” whereas Paragraph 8, item c.(1) under the definition of the term “Report on a description of a service organization’s system and the suitability of the design and operating effectiveness of controls” refers to “an opinion about the matters.” We suggest that these items be revised to refer to the auditor’s opinion in a consistent manner.
- Paragraph 14.d – We suggest revising the phrase “relevant to assertions in the user entity’s financial statements” to read “relevant to the user entity’s financial statement assertions” to be consistent with language used in paragraph A19c.

Ms. Sharon Macey
February 17, 2009
Page 3

- Paragraph A9 – footnote 2 should be revised to reflect the accurate title of the proposed AU section 801 standard.
- Page 20 – A paragraph reference appears to be missing from the title “Communication of Significant Deficiencies and Material Weaknesses Identified During the Audit” in the Application and Explanatory Materials section of the proposed standard. We believe this reference should be paragraph 13.
- Paragraph A29 (2nd bullet) – We suggest revising the phrase “at the user entity” to read “by the user entity” to be consistent with similar language used in paragraph 8 in defining the term “Complementary user entity controls.”

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (404) 656-2174.

Sincerely,

A handwritten signature in black ink that reads "Russell W. Hinton". The signature is written in a cursive style with a large initial "R" and a long horizontal stroke at the end.

Russell W. Hinton
President, NSAA