



National State Auditors Association

May 29, 2009

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

Dear Ms. Hazel:

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 entitled *Initial Audit Engagements, Including Reaudits—Opening Balances*.

Guide for Respondents

In response to the questions posed by the ASB with regard to the proposed SAS, we believe the objectives; convergence revisions; and considerations for smaller, less complex entities and governments are appropriate.

We do have one concern with the differences between the proposed SAS and ISA 510. We disagree with the Board's decision described in the last paragraph on page 24. We do not understand how the Board could conclude that reviewing prior year working papers would not, in some circumstances, provide adequate evidence concerning the beginning balances. When reviewing the test of a bank reconciliation in the prior auditor's work, we certainly would gain adequate evidence concerning the cash balance which the reconciliation tested. We cannot see any useful purpose in re-performing the same test in the current year when it is clearly evident in the prior year working papers.

It seems that the Board believes that CPAs auditing in the rest of the world can rely upon another CPA's work, but in the U.S., we cannot. We agree with the international standards that reviewing the prior working papers can be adequate for determining the appropriateness of beginning balances.

Comments by Paragraph

We have reviewed the proposed SAS and generally agree with the provisions contained therein. We did note some areas where we believe the guidance could be clearer. Our comments are below.

- Paragraph 2 – The wording used in this paragraph is a little confusing and could be made more immediately clear by revising it to say:

*The provisions of this SAS, with respect to predecessor auditors, do not apply if the most recent audited financial statements are more than two years prior to the **current beginning of the earliest period(s)** to be audited.*

More significantly, we do not see any reason why this provision shouldn't be revised to a one-year look back rather than two years. The auditor would be in the same position with respect to a one-year look back. Stated another way, even with only one unaudited year between the last audit and the current audit, the auditor would be in a situation in which any previous audit work would be of little relevance. That is, after one year, the auditor has lost the benefit of the predecessor auditor's work. Accordingly, we recommend this be revised from "more than two years prior" to "more than one year prior."

- Paragraph 7 – This paragraph requires the auditor to request that the client authorize the predecessor auditor to allow a review of the predecessor auditor’s working papers. However, unlike the other requirements, the exposure draft does not state the consequences if they refuse. We believe the Board should clarify.
- Paragraph 12 – It is clear from the content that auditors only look at material items (i.e., because auditors are only concerned with misstatements that he/she believes may require revision). Therefore, we suggest that the headings to both paragraphs 12 and A13 insert the word “material” between the words “possible” and “misstatements.”
- Paragraph A1 – This paragraph references to paragraph 5c, however, the list of terms in paragraph 5 are not lettered. We suggest the Board letter the list of terms in paragraph 5, or change the reference in paragraph A1 to paragraph 5 and place the reference to paragraph A1 in the overall paragraph 5.
- Paragraph A4 and Appendix B – Paragraph A4 includes this statement: “The predecessor auditor ordinarily permits the auditor to review working papers, including documentation of planning, risk assessment procedures, further audit procedures...” However, the Exhibit B *Acknowledgement Letter* includes this statement, “Upon request, we will provide copies of those working papers that provide **factual** information about ABC.” We believe some of the documentation described in paragraph A4 includes the predecessor auditor’s judgments in addition to truly factual matters. It seems this creates an inconsistency between what a successor auditor will request in paragraph A4 versus what the predecessor auditor will provide. This should be clarified in the final statement.
- Paragraph A5 – This paragraph refers to Exhibit B for an illustrative auditor acknowledgement letter, but it seems that Exhibit B is an illustrative example of a letter the predecessor auditor would present to the auditor. The language in paragraph A5 should be modified to correspond with the situation outlined in the Exhibit B illustrative letter.
- Paragraph A7 – Paragraph 7 requires the auditor to request that the client authorize the predecessor auditor to allow the auditor to review their working papers. Paragraph A7 then indicates that if the auditor is permitted to do so, the auditor **may** review the working papers. This seems odd, in that why is the auditor required to get permission to look at something he or she only **may** decide to review? We believe the sentence should be revised as follows:

If the predecessor auditor permits the auditor to do so, the auditor’s ~~may~~ review of the working papers ~~may provide for~~ information relevant to the audit.

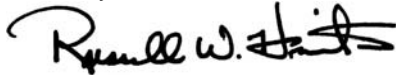
- Paragraph A7 – The second sentence seems to break up the discussion of the first and third sentences. Accordingly, we suggest the existing second sentence be preceded by the word “Additionally,” and placed immediately before the final sentence.
- Paragraph A10 – Based on the discussion in paragraph A7, we recommend an additional bullet be added to this paragraph as follows, “The results of the review of the predecessor’s working papers, and of inquiries about the predecessor auditor, as discussed in paragraph A7.”
- Paragraph A11 – In this paragraph, the last sentence introduces three bullets of additional procedures. Actually, though, the three bullets are specific examples of the “additional audit procedures” mentioned earlier in the sentence. Therefore, we recommend that the sentences be revised as follows:

Therefore, additional audit procedures may be necessary ~~to, and one or more of the following~~ ~~may~~ provide sufficient appropriate audit evidence. ~~Such procedures may include, for example:~~

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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, appearing to read "Russell W. Hinton". The signature is stylized with a large initial "R" and a long horizontal stroke at the end.

Russell W. Hinton
President, NSAA