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June 4, 2009

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 *Audit Sampling* (Redrafted).

We have reviewed the proposed SAS and generally agree with the provisions contained therein. Below we have provided our response to the issue for consideration as well as the guide for respondents noted in the exposure draft. We have also provided, by paragraph, comments or suggestions that we believe the Board should consider as it finalizes this document.

Issue for Consideration

In the exposure draft, the Board asked respondents to specifically consider whether the language in paragraph A17 of the proposed SAS is appropriate as drafted. We are concerned because the language in the proposed SAS is somewhat confusing and, as a result, it is not clear which nonstatistical sampling techniques are considered appropriate and which ones would not be so. As we read the proposed SAS, it appears to narrowly restrict the techniques that would qualify as nonstatistical sampling methods, and we are not in favor of unnecessarily restricting techniques that may be appropriate. We do agree that representativeness is a critical element that must be considered in the sample selection techniques. To that point, for example, the use of certain techniques such as simple block sampling should not be allowed as a sampling technique. To adequately address this topic and make this paragraph less confusing, we believe the language should be revised to either provide more examples or make it clearer what sampling techniques would qualify as nonstatistical sampling, and it should do so without unnecessarily restricting the options available to an auditor for nonstatistical sampling techniques.

Guide for Respondents

In response to the questions posed by the Board we believe the objectives; convergence revisions; and the differences between the proposed SAS and ISA 530 are appropriate.

Comments by Paragraph

- Paragraph 5 – We noted several differences between the definitions included in the exposure draft and the definitions included in the AICPA Audit Guide *Audit Sampling*. To reduce confusion, we recommend the definitions be consistent.
- Paragraph 5 – We suggest moving “Nonsampling risk” for alphabetical placement within the section.

- Paragraph A3 – We believe the proposed standard does not clearly distinguish between sampling and nonsampling audit procedures. Paragraph 1.20 of the AICPA Audit Guide *Audit Sampling* clarifies the difference between sampling and nonsampling audit procedures through a detailed example. We suggest that the Board expand the proposed standard to include or reference this example.
- Paragraphs 8 and A16 – *Sampling and the concept of representativeness*. We acknowledge and appreciate that the Board has better addressed (here in the proposed SAS compared to the ISA) audit sampling, as defined in paragraph 5, by the inclusion of the discussion of representativeness. In paragraphs 8 and A16, however, the word usage implies that an appropriately randomly selected sample **will** be representative. We disagree with that implication. We believe, and have experienced in practice, occasions when even a properly applied random sample of a homogenous population does not return a representative sample. That is why, for example, in some cases a simple random selection technique may not yield representativeness as faithfully as a monetary unit selection technique. Consequently, we believe it is important that the auditor evaluate, scan, or otherwise determine that the randomly selected sample is indeed representative-not precisely-but generally. Accordingly, we believe paragraph 8 to be a truer statement if reworded as follows:

8. The auditor should select items for the sample in such a way that the auditor can reasonably expect the sample to be free of intentional bias and thus likely will be representative of the relevant population and ~~likely to~~ provide the auditor a reasonable basis for conclusions about the population.

Then, we believe paragraph A16 should be reworded as follows:

*A16. To be considered representative, an audit sample is selected in a manner such that the auditor can reasonably expect that the sample is free of intentional bias or preference. **However, a misrepresentative sample is part of sampling risk and to reduce that sampling risk further, an auditor may review the sample to evaluate whether it appears that the sample selected is representative of the population to be tested.***

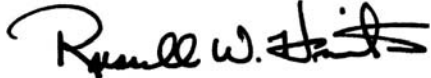
- Paragraph A5 – We suggest bolding the subheader “*Statistical Sampling* (Ref: par. 5)” to be consistent with previous subheadings.
- Paragraphs A5 and A18 – Paragraph A18 suggests that the principal methods of selecting samples are random, systematic, and haphazard selections. However, paragraph A5 includes systematic as a random selection technique. We suggest the board consider this apparent inconsistency and revise accordingly.
- Paragraph A9 – This paragraph references paragraph 6, but it discusses matters that relate to sample size, which is discussed in paragraph 7. Paragraph A13 discusses sampling risk and sample size and, therefore, it seems that paragraph A9 would more appropriately fit after the discussion in paragraph A13. Accordingly, we recommend the Board move paragraph A9 to immediately after paragraph A13.
- Paragraph A15 – The next to last sentence appears to imply that the auditor should ensure that the sample size using nonstatistical sampling is “comparable to the sample size resulting from an efficient and effectively designed statistical sample.” However, the last sentence seems to contradict this. We suggest removing the last two sentences in this paragraph.
- Paragraph A24 – The second sentence in this paragraph indicates that the auditor “may” not assume that observed deviations caused by unusual or isolated circumstances are not representative of the population. It seems that the appropriate term is “should.” However, the use of the term “should” would make it a requirement. If this is the Board’s intent, it should be moved to the requirements section of the proposed SAS.

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- Paragraph A30 – As a general observation, it is critical for practitioners to refer to the AICPA's Audit Guide, *Audit Sampling*, to fully understand and properly apply the concepts of the existing SAS or the ED. Including the *Summary Outline* of the Guide in this paragraph is helpful in reminding practitioners of this need.

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 stylized "H".

Russell W. Hinton
President, NSAA