



National State Auditors Association

August 12, 2008

Ms. Sharon Macey
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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 (SAS) entitled, *Communicating Internal Control Related Matters Noted in an Audit*.

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

Questions posed by the ASB

1. *Are these changes helpful in evaluating significant deficiencies? If not, how should the definition be amended?*

We believe the changes are helpful in evaluating significant deficiencies. The changes will allow for more professional judgment during auditor evaluation. We continue to believe that professional judgment is a critical part of evaluating the severity of a deficiency even after considering magnitude and likelihood.

2. *If the auditor identifies an improperly designed control, and is not testing the operating effectiveness of controls as part of the financial statement audit, is it sufficient for the auditor to evaluate the design of a compensating control, determine whether it has been implemented, and use that information as a basis for (1) considering the mitigating effects of the compensating control on the deficiency and (2) categorizing the deficiency for the purpose of communicating to management and those charged with governance?*

We consider the provisions outlined in the question as an appropriate response when the auditor identifies an improperly designed control. It doesn't seem reasonable to require testing of a compensating control when the primary controls are not required to be tested.

We have the following general comments:

- Rather than just referencing to the FASB Statement No. 5 in footnote 5 of the proposed SAS, we suggest the ASB consider including specific language describing FASB Statement No. 5, paragraph 3, so that auditors readily understand the terms that would apply.
- It is apparent that the ASB has not followed the clarity drafting conventions in this proposed standard. We suggest the ASB include in the final standard the reasons it has not followed the clarity format, and when it plans to do so.

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,

Russell W. Hinton
President, NSAA