



National State Auditors Association

December 22, 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 Statements on Auditing Standards entitled *Forming an Opinion and Reporting on Financial Statements, Modifications to the Opinion in the Independent Auditor's Report, and Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

We have reviewed the proposed SASs and generally agree with the provisions contained therein. Below we have provided our response to the three issues for consideration and 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.

Issues for Consideration

1. *Are the additions to the auditor's responsibility and management's responsibility sections of the auditor's report appropriate for users in the United States?*

Yes. As we continue to bridge gaps in expectations and knowledge about what auditors do and what management does during a financial statement audit, the sections about each party's responsibilities are appropriate and necessary.

2. *Is the inclusion of section headings (for example, Report on Financial Statements, Management's Responsibility for the Financial Statements, Auditor's Responsibility, Opinion, Report on Other Legal and Regulatory Requirements) helpful in the auditor's report?*

Yes, the inclusion of section headings in the auditor's report should be helpful to the user's understanding of the auditor's report by clarifying each party's responsibilities and the results of the auditor's work.

3. *Do you anticipate any issues in practice arising from the proposed SAS requiring different, although similar, wording of auditor's reports than that required by current PCAOB standards? Do you agree that the ASB's decision to converge with the ISA form of report is appropriate in the United States?*

Our members do not prepare auditor's reports in accordance with PCAOB standards, therefore we have no comment on issues that may arise in practice from the proposed SAS requiring different wording of the auditor's reports than that required by current PCAOB standards. However, given the goals and objectives of the Clarity of Standards Project, and the interaction between the IAASB, the Auditing Standards Board, and the U.S. Government Accountability Office during the project, we do agree with the ASB's decision to converge with the ISA form of report.

Guide for Respondents

In response to the questions posed by the Board with regard to the proposed SAS, we believe the objectives; convergence revisions; differences between the proposed SASs and ISA Nos. 700, 705, 706, and 710; and considerations for audits of smaller, less complex entities and governmental entities are appropriate.

Other Comments

Forming an Opinion and Reporting on Financial Statements

- *Paragraphs 8 and 43-46* – These paragraphs outline the auditor's responsibility with regard to summarized comparative financial information. However, the proposed SAS does not clearly explain the difference between summarized comparative financial information and comparative financial statements. We suggest the Board add language to clearly differentiate between the two.
- *Paragraph 23.c.* – The requirement to identify each statement that comprises the financial statements is not practical in the government environment unless it can be done by referencing the table of contents, which is currently allowed by paragraph 14.13 of the AICPA's Audit & Accounting Guide *State and Local Governments*. There are too many different statements in a CAFR, and the report would be confusing and excessive to name each statement in the report. We suggest the Board add explanatory language to allow reference to the table of contents, rather than identifying the title of each statement, in the introductory paragraph.
- *Paragraphs 26 and A23* – We recommend the Board clarify these paragraphs regarding additional references to statements by management about their responsibilities for preparation of the financial statements. Initially, we had some concerns that this could impact the language in the required report on internal control and compliance for governmental entities. However, upon further review we do not believe this is the intent, but believe the Board should provide examples of when this paragraph would apply to clarify the intent.
- *Paragraph 37* – The requirement to include the signature of the firm is not always appropriate in the government environment. In many states, the state auditor is required by law to sign, or may choose to sign, the report. We understand that paragraph A33 applies when the auditor is required by law or regulation to sign. However, we also suggest the auditor be allowed to sign the report if he/she so chooses.
- *Paragraph A7* – The second sentence of this paragraph is very long (14 lines of the paragraph), and therefore, difficult to read. We suggest putting each of the specific areas addressed into bullets to simplify and clarify the information provided.
- *Paragraph A41* – We recommend that in footnote 18 to paragraph A41, the Board also reference the AICPA's Audit & Accounting Guide *State and Local Governments*.

Modifications to the Opinion in the Independent Auditor's Report

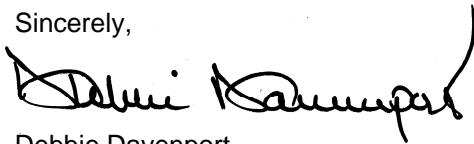
- *Paragraph A13* – We recommend the Board modify this paragraph to include additional examples of management's imposed limitations, such as refusal of access to automated data and limitations imposed related to sensitive data.

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

- *General* – We suggest that conforming changes be made to the clarified SASs on *Required Supplementary Information, Other Information in Documents Containing Audited Financial Statements, and Other Information in Relation to the Financial Statements as a Whole*, to describe in those standards the appropriate paragraph locations within the auditor's report for required supplementary information, other information, and other information in relation to the financial statements.
- *Paragraphs 10.c. and A17* – These two paragraphs use the phrase "by-product," which can have different meanings in accounting literature. We believe "by-product report" should be added as a definition, largely using the description in paragraph A17.
- *Appendix 1 (page 98)* – The subtitle of "Qualified Opinion" appears to be an error, as the paragraph is actually an unqualified opinion.

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 (602) 553-0333.

Sincerely,



Debbie Davenport
President, NSAA