



National State Auditors Association

January 14, 2010

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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 *Terms of Engagement and Written Representations*.

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

- In the circumstances of a recurring audit when the auditor has determined that there is no need to revise the terms of the engagement, which one of the following requirements is the most appropriate:*
 - A requirement that the auditor remind the entity of the existing terms of the engagement each year (as in the proposed SAS)*
 - A requirement that the auditor assess whether to remind the entity of the existing terms of the engagement each year (as in ISA 210)*

In the event that the recurring auditor has determined that there is no need to revise the terms of the engagement, we believe the most appropriate requirement is option a (a requirement that the auditor remind the entity of the existing terms of the engagement each year).

- If the proposed SAS should contain a requirement to remind the entity of the existing terms, should the reminder be required to be in writing, with no option for an oral reminder?*

While we agree that the SAS should contain a requirement to remind the entity of existing terms of a recurring audit, our responding members were split on whether the reminder should be required to be in writing or whether an oral reminder would be acceptable. Therefore, we do not take a position on this issue.

Guide for Respondents

In response to the questions posed by the Board with regard to the proposed SASs, we believe the objectives; convergence revisions; differences between the proposed SASs and the ISAs upon which they are based; and considerations for audits of smaller, less complex entities and governmental entities are appropriate.

Other Comments

Terms of Engagement

- General – Third parties often contract with auditors to conduct audits of the auditee. For example, a grantor may engage an auditor for a grantee. These relationships require special considerations as indicated below.
 - Should there be a terms of engagement agreement between the third party and the auditor outlining the terms of the engagement as indicated in the proposed SAS? If so, should there be a separate document between the auditor and auditee or could one document cover all parties involved?
 - If the third party requires certain disclosures by management, is it permissible to include the requirements in the terms of engagement agreement?
 - How should the auditor proceed if management refuses to agree to the terms of engagement when a third party has contracted for the audit?

We recommend the Board include guidance in the proposed SAS to cover the above issues.

- Paragraph A13 – As worded, the language in paragraph A13 sounds like a requirement, yet it isn't specifically described as a requirement in paragraph 6.b. where this application paragraph is referenced, nor does it discuss the requirements in the proposed SAS *Written Representations* where in certain circumstances, the auditor would disclaim an opinion. It is somewhat confusing when comparing the requirements here and the requirements in the proposed SAS *Written Representations*. We suggest this paragraph and/or paragraph 6 be revised to better reflect the guidance being provided here, or be moved to the requirements section if necessary.

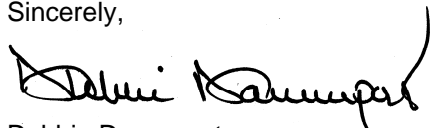
Written Representations

- In Exhibit 1, the AICPA has worded several of the representations such as those addressing misstatements, fraud, and non-compliance to infer that they have occurred during the year. For example, related to fraud, the example indicates that management has disclosed to the auditor all information related to fraud. Stating management has disclosed items may lead users of the report to misinterpret the representation to believe that fraud has occurred when in fact it has not.

For governments, both the terms of engagement and management's representations are public documents and we are concerned this positive representation could be misinterpreted. We recommend the Board include guidance that reflects whether, or when, management can assert that they are not aware of any fraud, non-compliance, etc.

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