



National State Auditors Association

April 29, 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 Statement on Auditing Standards entitled *Audit Evidence—Specific Considerations for Selected Items*.

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 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.

Issue for Consideration – Is seeking direct communication with the entity's legal counsel through a legal inquiry, based on the assessment of the risk of material misstatement, appropriate?

We believe it is appropriate to allow the auditor to determine whether direct communication with the entity's external legal counsel through a legal inquiry is necessary based on the assessment of the risk of material misstatement. This provision properly allows the auditor to use his/her judgment to assess the risk of material misstatement due to litigation or claims rather than requiring a letter of inquiry in all cases. We believe the requirement in paragraph 19 of the exposure draft, which requires the auditor to document the basis for any determination not to seek direct communication with the entity's external legal counsel, is an adequate safeguard to ensure the auditor appropriately considered the need to make legal inquires.

Guide for Respondents

In response to the questions posed by the Board with regard to the proposed SAS, we believe the objectives; convergence revisions; and differences between the proposed SAS and ISA 501, and other language changes are appropriate.

With regard to considerations for audits of governmental entities, we noted that paragraph A60 refers to financial statements as a *whole*. In the government environment, this term does not always apply. To make this standard more framework neutral, we suggest the board remove the phrase "as a whole" so that it is applicable to both the government environment and the private sector, or add a guidance paragraph similar to that included in the recently issued SAS No. 119 (AU 551.A15).

Other Comments

- *Paragraphs 4-10 and A1-A22 (Investments in Securities and Derivatives section) – Paragraph A2 refers to the Audit Guide Auditing Derivative Instruments, Hedging Activities, and Investments in Securities. We agree that a lot of the information pertaining to this subject matter should remain in the guide, rather than be incorporated in the SAS.*

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However, due the complexities of the subject matter, and the various terms involved, we believe the guide is a necessity in assisting the auditor in meeting the objectives of the SAS. Accordingly, we recommend that it be more prominently mentioned and acknowledged in the introductory section of this standard.

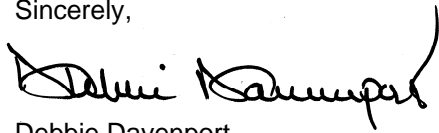
- *Paragraph 18* – This paragraph mentions litigation and claims, but omits assessments. This appears to be an oversight, since the application material includes assessments.

Editorial Comment

- *Paragraph A48* – The Board should consider making this paragraph gender-neutral similar to paragraph A52h.

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,

A handwritten signature in black ink, appearing to read "Debbie Davenport". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Debbie Davenport
President, NSAA