April 29, 2010

Ms. Sharon Macey
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

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 entitled Communicating Internal Control Related Matters Identified in an Audit (Redrafted).

We have reviewed the proposed SAS and generally agree with the provisions contained therein. We appreciate the Board's decision to maintain the provision in auditing standards that would not preclude an auditor from communicating to management or those charged with governance other matters coming to the auditor's attention that, in the auditor's judgment, should be communicated to those parties.

Below we have provided our response to the guide for respondents, and have provided, by paragraph, comments or suggestions that we believe the Board should consider as it finalizes this document.

Guide for Respondents

1. Yes, we consider the objectives as stated in the proposed SAS appropriate.

2. There are two areas where we have concerns about revisions made to converge the existing standard with ISA 265:

   a. We do not agree with the proposed elimination of the definitions of deficiencies in “design” and “operation” found in paragraph 5 of the existing standard. The mapping document for this proposed SAS states that the definitions of deficiency in design and deficiency in operation are eliminated because those terms are not used in the proposed SAS. On the contrary, the proposed standard continues to use those terms throughout, including in the definition of a deficiency in internal control found in paragraph 7 and examples found in proposed Exhibit C. We believe those definitions are relevant, useful and provide clarity to this standard. We request the Board either add the definitions to the standard, or provide the definitions as application guidance.

   One suggestion for incorporating the definitions is to revise paragraph A39 (Exhibit C) as follows:

   Deficiencies in the Design of Controls
   A deficiency in design exists when

   • a control necessary to meet the control objective is missing; or
   • an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

   The following are examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses related to the design of controls:

   ****
Failures in the Operation of Controls
A deficiency in operation exists when

- a properly designed control does not operate as designed; or
- the person performing the control does not possess the necessary authority or competence to perform the control effectively.

The following are examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses related to the operation of controls:

b. The wording in paragraph 14 and A37 (Exhibit A) both seem to require the definition of a material weakness even when there were only significant deficiencies identified. SAS 112 did not require this, but SAS 115 does. We request the Board reconsider this change in favor of the requirement in SAS 112.

3. With regard to the differences between the proposed SAS and ISA 265 as identified in Exhibit D (paragraph A40), we do not believe the auditor should be prohibited from issuing a written communication stating that no significant deficiencies were identified during the audit. Although it is consistent with the prior restriction on issuing a report stating there were no reportable conditions, our understanding of the reason for the restriction was the possibility of misleading readers of the report. However, we do not believe it is more misleading than stating the auditor found no material weaknesses, especially since all reports are required to state:

the auditor’s consideration of internal control was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, deficiencies, significant deficiencies, or material weaknesses may exist that were not identified.

4. Yes, we agree that the considerations for smaller, less complex entities and governmental entities have been dealt with appropriately. However, we do have one suggestion. Because the written communication in the government environment will likely be subject to the open records laws, we recommend adding guidance in paragraph A32 and the illustrations specifying that, “However, this report is a matter of public record.” This additional language could be italicized as optional language for the auditor to include.

Other Comment

- Paragraph A32 – We acknowledge that the SASs should not repeat information from other SASs. However, in this case, the third sentence seems to contradict the first two sentences. We suggest the Board add a phrase or sentence in this paragraph (derived from the referenced paragraph in the other SAS) to put context around the third sentence.

Editorial Comment

- Paragraph A39 (Exhibit C) – In the third bullet under the section Failures in the Operation of Controls, the parenthetical reference should state “physical inventory counts” on the 12th and 13th lines.

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