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April 27, 2011

Mr. Mike Glynn
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Glynn:

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 *Alert as to the Intended Use of the Auditor's Written Communication*.

We have reviewed the proposed SAS and generally agree with the provisions contained therein. We appreciate that this proposed standard would address a longstanding issue for governmental entity audits by acknowledging the truly different perspective about, and use of, a "restricted use" paragraph in a government environment. Specifically we applaud the provision set out in paragraph 12 to acknowledge that, in those specific cases, certain written communications truly are intended to be used for a specific purpose, not for just certain limited specified parties.

We also appreciate the guidance provided in paragraph A8 that resolves another potential problem as the clarified SASs are implemented. This guidance is logical in that an entire auditor's report on financial statements normally intended for general use should not be completely "restricted" because an additional audit service that has a restricted use was performed. Given that the clarified SASs will require labeling paragraphs with headings and subheadings, paragraph A8 now provides auditors with a way to appropriately "restrict" a portion of the auditor's report without making the entire report "restricted," avoiding unwanted and unnecessary consequences.

Specifically, for both of the issues mentioned above, not having those provisions and guidance has severe unwanted and unnecessary consequences. We note that under the clarified SAS *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, certain preconditions exist for making reference to the reports of component auditors. The condition in paragraph 25.c of that SAS precludes a group auditor from making reference to a component auditor's report if the component auditor's report has a restricted use paragraph. In the government environment, group and component audits are extremely frequent occurrences. And quite often, especially in single audits, the component auditor's report to which the group auditor intends to make reference includes the restricted use paragraph. The provisions noted above provide the right answers to the government environment as well as help to avoid an unnecessary limitation on the group auditor's ability to make reference to a component auditor's report.

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. *Should the term restricted use be eliminated and replaced with the term intended use?*

We believe the term *restricted use* should be eliminated and replaced with the term *intended use*. The use of the term *intended use* more clearly addresses the issue of concern underlying this SAS and the practical application of the requirement. In addition, in this time of increased transparency, this change is very much needed. In the world of government auditing, gone are the days when our reports were considered restricted and “for management’s use only.” With electronic distribution of reports, the auditor cannot control the distribution. Lastly, the current use of the term *restricted use* often leads to confusion between report restriction and report distribution, particularly for reports of governmental entities. We strongly support this change.

2. *When the engagement is also performed in accordance with Government Auditing Standards and the written communication pursuant to that engagement is required by law or regulation to be made publicly available, should auditors be permitted to use alert language that describes the purpose of the communication rather than its intended use solely by the specified parties?*

We believe it is appropriate to use alert language that describes the purpose of the communication. Describing the purpose of the communication rather than its intended use solely by specified parties helps the public understand the scope and the reasons for why the reports are issued. In addition, this approach is preferable since it eliminates contradictory language, i.e., the need to put in our reports that the document is public and anyone can have it just after we have been required to tell them only certain people can use it. In some instances the current wording is interpreted by the media as an attempt to circumvent public records laws. For the reasons stated in the first page of this letter, and in order to appropriately convey the use of the written communication, we strongly suggest the Board adopt this requirement in paragraph 12. [However, see recommended wording change for paragraph 12 below.]

3. *When a single combined report covering both (a) communications that are required to include an alert as to intended use and (b) communications that are for general use, which do not ordinarily include such an alert, is used, should the alert language as to the intended use of the report apply to the single combined report or only to the portion of the report that requires the alert language?*

We agree that when a single combined report is issued covering both 1) communications that require an alert as to intended use, and 2) communications that are for general use, the alert language should apply only to the portion of the report which requires the alert. This would assist users in identifying the differences in the nature and intended use of the information communicated in the report, and would avoid unnecessary and unwanted consequences, as explained in the first page of this letter.

Guide for Respondents

1. *Are the objectives of the auditor appropriate?*

We believe the objectives of the auditor are appropriate. However, we do have a suggested change in wording that would make it more precise so that users are better able to understand the objective. We suggest the board consider revising the wording as follows:

The objective of the auditor is to alert the reader to the intended use of certain reports so that the auditor’s written communication will not be misunderstood.

2. *Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?*

Yes. Paragraph 12 of the exposure draft adequately considers the implications of the proposed standard for audits of governmental entities conducted in accordance with *Government Auditing Standards*.

Other Comments

- *Definitions section* – We suggest the Board consider adding the term “intended use” and defining it in the Definitions section.
- *Paragraphs 2 and A3* – We understand and fully agree that auditors may find it necessary to include alerts as to intended use in written communications and auditor’s reports on financial statements prepared in accordance with a general purpose framework. The proposed SAS language indicates that nothing in GAAS precludes an auditor from including an alert restriction paragraph whenever “an auditor considers it necessary to do so.” However, the language lacks a clear explanation or guidance about what an auditor should consider when evaluating whether it is a necessary situation. We believe that this lack of guidance could lead to unintended consequences.

For example, related to paragraph 25.c of clarified SAS *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, a group auditor would be precluded from making reference to a component auditor because that auditor decided to include intended use language either 1) without conferring with the group auditor or 2) for reasons that may not truly be necessary. While in the first case, this circumstance relates to the lack of appropriate communications, in the second case, the component auditor has jeopardized the group auditor’s ability to make reference to the component auditor unjustifiably.

It is because of the second circumstance that we believe that the application guidance in paragraph A3 should 1) be revised to remove the sentence allowing discretionary use of an intended use language or 2) should provide criteria for when it is “necessary” to use the intended use language. With appropriate criteria, auditors are better informed that careful consideration should be made about possible uses of the auditor’s report before adding an alert on intended use.

We also believe the reference in paragraph A3 to the clarified SAS *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 20, is confusing and should be removed. The clarified SAS *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* does not provide a relevant example but instead provides information about when a restrictive paragraph *is required* to be included when reporting on special purpose financial statements.

- *Paragraph 12* – We believe that the “and” in paragraph 12 should be changed to an “or” as noted below:

“When the engagement is also performed in accordance with Government Auditing Standards, or when the written communication pursuant to that engagement is required by law or regulation to be made publicly available ...”

It seems that the requirement in this paragraph is intended to be for those governments that are required by law or regulation to have the communication publicly available. Using the term “and” requires that the engagement must also be performed in accordance with *Government Auditing Standards*. There are many reports issued by government auditors that may not be performed in accordance with *Government Auditing Standards* but are still required to be public documents. Therefore, we believe the alternate language noted above would be more appropriate.

- *Appendix B* – Because of the impact clarified SAS *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* could have on group audits, it would appear that paragraph 12 of the proposed SAS would be applicable. Therefore, we suggest that pages 37, 41, and 43 of this appendix be revised to add additional references to the use of the language prescribed by paragraph 12 of the proposed SAS when the engagement is performed in accordance with *Government Auditing Standards* ~~and~~ [or] the written communication pursuant to that engagement is required by law or regulation to be made publicly available. Such reference could be

Mr. Mike Glynn
April 27, 2011
Page 4

made on these pages through use of a footnote such as footnote 2 at the top of page 17. This would further enhance the consistency of the proposed SAS language and Appendix B.

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 (804) 225-3350.

Sincerely,

A handwritten signature in black ink, appearing to read "Walter Kucharski". The signature is fluid and cursive, with a prominent initial "W" and a long, sweeping underline.

Walter Kucharski
President, NSAA