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May 11, 2011

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, *Omnibus Statement on Auditing Standards—2011*.

We have reviewed the proposed SAS and generally support the provisions contained therein. However, we do have one concern relating to the amendment to clarified SAS *Modifications to the Opinion in the Independent Auditor's Report*. Specifically, paragraph 10 on page 19 adds paragraph 16 to the clarified SAS. We acknowledge that SAS 26 has been in effect for many years. We also understand that the exposure draft's paragraph 10 reflects simply bringing the existing content forward into the clarity standards. We also appreciate the additional proposed application paragraph specific to governmental entities, as it reflects existing interpretations and practice for state and local government audits and their multiple reporting units.

We do, however, want to express our concern that this longstanding provision of requiring a disclaimer when an auditor lacks independence doesn't appropriately consider government audit organizations in certain situations. Specifically, a government audit organization that is mandated by law to perform audits may also have to follow other laws that put the government audit organization in a situation where independence cannot be achieved, either in fact or appearance. For example, a state auditor may be required to be on a governing board or commission of a state agency for which the government auditor is required to audit. Or, the government audit organization may be required by a law to provide a nonaudit service that violates independence, yet the government auditor is required to audit that entity. In these cases, and following both laws (i.e., to audit the entity and to perform a service that violates independence), the government auditor should not be restricted to only a disclaimer of opinion. Instead, the government auditor should be able to perform the audit and the nonaudit service when required by law or regulation to do so, and then opine appropriately based on the evidence obtained. As is provided in clarified AU 220, paragraph A6, the auditor would also explain the circumstances affecting the auditor's independence.

We ask the ASB to consider these situations, and provide appropriate guidance for government audit organizations that allows the expression of an opinion when law mandates the government auditor to perform the audit and additional laws require that government auditor to also provide services that impair independence.

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

Issue for Consideration – Appendix to SAS No. 117

We have no objections to the AU sections listed in the appendix and agree that the applicability of the application paragraphs would be dependent on the applicability of the requirements paragraphs and therefore need not be separately stated.

We did note that AU 623, *Special Reports*, was removed from the listing. The content from AU 623 now resides in the following clarified AU Sections:

- 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks
- 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement
- 806, Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements

These AU Sections were not added to the list in the appendix. We do not believe these AU Sections are applicable in a compliance audit and therefore we suggest they be added to the list.

Other Comments

Amendment to SAS No. 117

- Page 11, paragraph 30.i – The language contained in this paragraph contradicts the proposed SAS entitled *Alert as to the Intended Use of the Auditor's Written Communication*. If this proposal is passed as exposed, conforming changes will be needed to paragraph 30.i. of SAS No. 117 to address the following:
 - The term “restricted use” used in 30.i.ii(2) should be eliminated and replaced with the term “intended use.”
 - Permit the auditor to use alert language in paragraph 12 of the proposed SAS, *Alert as to the Intended Use of the Auditor's Written Communication*, that describes the purpose of the communication rather than its intended use solely by the specified parties when the engagement is also performed in accordance with Government Auditing Standards and the written communication pursuant to that engagement is required to be made publicly available.
- SAS No. 117, paragraph A42 (not included in ED) – We assume that the reason this paragraph is not included in the current exposure draft is that conforming changes to exhibits do not have to go through due process. However, we noted that the exhibit in paragraph A42 should be updated to conform to the proposed revisions to SAS No. 117, paragraph 30, including the addition of section headings to the report.

Editorial Comments

- Page 12, paragraph 30.kl – This paragraph should be renumbered as 30.l.
- Page 12, paragraph A41 – The footnote reference 1 should be deleted from the title of the Appendix: Clarified SASs and AU Sections That Are Not Applicable to Compliance Audits as the referenced footnote has been deleted.

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,



Walt Kucharski
President, NSAA