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January 31, 2012

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 (SAS) entitled *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted).

We have reviewed the proposed SAS and generally agree with its provisions. Below we have provided our response to 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.

Guide for Respondents

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

The objectives listed in the proposed SAS appear to bypass the auditor's requirements in paragraphs 7 and 8 for the auditor's initial evaluation of the audit evidence obtained while performing audit procedures related to the fair presentation of the financial statements as to whether there is the need to perform additional procedures to evaluate going concern. Instead, the objectives begin with the auditor "concluding" on whether there is substantial doubt about the entity's ability to continue as a going concern. We believe it would be appropriate to add an objective prior to what is currently objective a., requiring the auditor to evaluate the audit evidence obtained during the normal course of the audit to determine whether it is necessary to perform additional procedures concerning an entity's ability to continue as a going concern.

2. *Are the differences between the proposed SAS and SAS No. 59 identified in the supplement to the exposure draft, and other language changes, appropriate?*

Yes, the differences between the proposed SAS and SAS No. 59 identified in the supplement to the exposure draft, and other language changes, are appropriate.

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

We have the following suggestions regarding considerations for governmental entities:

- We believe that this proposed SAS would only apply to the government as a whole, and not when an auditor is auditing the stand-alone financial statements of a department, fund, or other portion of a government. A department, fund, or other portion of a government is not a going concern, as is contemplated by the extant SAS and this proposed SAS and this (component) management would not need to take the steps outlined in this proposed SAS. Therefore, we recommend an application paragraph for considerations for audits of governmental entities be added (referenced to paragraph 1) to explain that this proposed SAS would only apply to a government as a whole.

- It appears that paragraph 12 puts a requirement on the auditor for disclosure regarding substantial doubt of an entity's ability to continue as a going concern even when substantial doubt has been alleviated. This goes beyond what is required by some financial reporting frameworks (e.g., GASB). For governments, GASB Codification Section 2250.117 requires disclosure in the notes to the financial statements "if it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern..." Therefore, we believe clarification is needed that this requirement is unique to certain financial reporting frameworks.

Comments by Paragraph

Paragraph 18

We believe a more appropriate placement of this paragraph (*Written Representations*) would be after paragraph 12 since this is the more logical flow of the order in which the auditor would perform the procedures. Further, we believe it is appropriate to include this requirement prior to the *Consideration of the Effects on the Auditor's Report* section since the auditor would consider management representations in determining the effects on the auditor's reports.

Paragraph 18.b

We foresee occasions in which management may believe their disclosures about the entity's ability to continue as a going concern are accurate, but the auditor does not, as is discussed in paragraph 16. In addition, management may provide written representations that these same disclosures include all matters that are relevant as is discussed in paragraph 18.b. But again, the auditor may not agree that these written representations are adequate. Paragraph 16 defines what an auditor is to do when the auditor concludes that the disclosures are inadequate. However, paragraph 18.b does not define what an auditor should do when he believes management's representations are inadequate. Therefore, we suggest that a footnote reference be added to paragraph 18.b to *Management Representations*, AU-C Section 580.22-.26.

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 (515) 281-5835.

Sincerely,



David Vaudt
President, NSAA