



National State Auditors Association

January 20, 2004

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 012

Dear Mr. Seymour:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the PCAOB's proposed auditing standard, *Audit Documentation*, and proposed amendment to the interim auditing standard, *Part of Audit Performed by Other Independent Auditors*.

We generally agree with the proposed standard and related amendment regarding audit documentation. We believe that the guidance in the proposed standard will assist auditors in determining the appropriate nature, timing, and extent of audit documentation. The proposed standard establishes minimum levels of acceptable documentation that we believe will provide for more uniform evidence of audit work among practitioners.

The PCAOB, in its summary of the proposed standard, specifically invited comments on the rebuttable presumption provision and the proposed implementation date. Following are our comments on these two issues.

Rebuttable Presumption

In general, we agree with paragraph 6 of the proposed standard that states that auditors should document procedures performed, evidence obtained and conclusions reached. However, we are concerned with the presumption that conclusions that are not adequately documented are not suitably supported. We believe there is a difference between not having done the testwork and not having adequately documented the conclusion. For example, a situation could arise where audit procedures were applied and documented, evidence was obtained and documented, and no exceptions were noted but the auditor did not document a conclusion. In this example, we believe the notion of rebuttable presumption would prevail (i.e., the conclusion was suitably supported although the conclusion was not documented). If this is not the intent of the Board, we believe the Board should provide clarification of this provision by providing examples.

We are also uncertain how evidence can be persuasive for providing sufficient support for the conclusions reached if it is not part of written audit documentation. We believe the Board should elaborate in the proposed rule examples of "persuasive other evidence" and how this type of evidence rebuts the presumption that procedures were not applied, evidence was not obtained, and the conclusions reached were not suitably supported when it was not part of audit documentation.

Effective Date

We believe that the implementation date should be changed from "*completed on or after*" to "*beginning on or after*". An audit that was planned to have ended prior to the proposed June 15, 2004 implementation date but unforeseeably ending after June 15, 2004 would potentially not be in compliance with the standard. The date itself could be made sooner so that the standard could take effect sooner if that is the desire of the Board.

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We do offer several other comments below which we believe would add clarification to the proposed standard and ask the Board to consider these suggestions as it finalizes this standard.

Paragraph 5.b – We have observed that, in practice, some audit organizations require those who perform the work, or those supervisors who review the work, to sign and date each working paper or audit document, while others note such responsibilities only on lead schedules or audit documentation folders. This has been a subject of discussion and disagreement, including during peer reviews. To clarify this requirement, we recommend the Board clearly identify the minimum level of documentation, for example a) at the lead schedule or file level, or b) for each working paper and audit document. This could be easily incorporated as a footnote to paragraph 5.b.

Paragraph 6 – We believe the Board should consider replacing “suitably” with “adequately” in the second sentence of this paragraph.

Paragraph 12 – The examples in the last sentence seem to imply that this particular documentation requirement relates only to significant findings or issues relating to the audit team or between the audit team and its consultants. It seems equally important to document these issues as they relate between the audit team and the auditee. If the Board also expects the auditor to document information about significant findings and issues relating to differences between the audit team and the auditee, this paragraph should be revised to reflect that expectation.

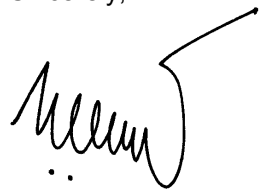
Paragraph 14 – The use of the phrase “grant permission to use the auditor’s report” is not terminology consistent with current standards or practice for financial statement audits, and has not been defined here. For clarity and consistency in how auditors implement this requirement, we recommend the Board revise the proposed standard to remove the references to “granting permission to use the auditor’s report” and instead, refer to “the release or issuance of the auditor’s report(s),” which better conforms to practice and the reality of what auditors currently do.

Paragraph 16 – It is unclear whether the requirements of this paragraph expect the principal auditor to retain audit documentation of the work of only those other auditors who the principal auditor does *not* make reference to in his or her report, or to *all* documentation of the work of other auditors, including those that the principal auditor relies upon and refers to in the principal auditor’s report. We believe the Board should clearly describe the level of documentation to which this requirement applies.

In those cases in which the principal auditor refers to the other auditors in the principal auditor’s report, we believe that the principal auditor should only have to retain the other auditor’s *report* being referenced, and not the entire set of audit documentation of those other auditors. To require retaining more than the auditor’s report defeats the reasons for referring to other auditors’ reports. It also establishes little difference between the two choices a principal auditor has, when in fact, the differences in the level of responsibilities to the principal auditor is substantial.

We appreciate the efforts of the Board and the opportunity to provide our comments. 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 (217) 782-3536.

Sincerely,

A handwritten signature in black ink, appearing to read "William G. Holland". The signature is written in a cursive style with a long, sweeping line extending upwards and to the right from the end of the name.

William G. Holland
President, NSAA