



National State Auditors Association

November 6, 2003

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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. 009

Dear Board Members:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the PCAOB's proposed rule regarding certain terms used in auditing and related professional practice standards.

We support the proposed rule defining certain terms that the Board will employ to describe the professional obligations of registered firms and associated persons under its standards. The three categories of professional obligations seem reasonable and will provide clear, concise, and definitive imperatives, thereby improving audit quality.

However, we have a few suggestions that we believe the Board should consider as it finalizes the rule. First, regarding the burden placed on an auditor when not complying with a "should" obligation, Appendix 1 (text of the proposed rule) requires the auditor to demonstrate, by verifiable, objective, and documented evidence, that alternative actions he or she followed in the circumstances were sufficient to achieve the objectives of the standard. Appendix 2 (analysis of the proposed rule) provides slightly more detailed instructions in that the documented evidence must be "memorialized" at the time of the audit, not after-the-fact, and must be made part of the audit workpapers. To strengthen the rule, we believe the Board should add the sentence, "Such evidence must be memorialized at the time of the audit, not after-the-fact, and must be made a part of the audit workpapers," after the second sentence of the proposed Rule 3101 (a)(2).

Second, we suggest the Board label the three categories of professional obligations listed as (a) (1), (2), and (3) as *Unconditional Obligations*, *Mandatory Obligations* and *Subsidiary Obligations* for ease of reference and clarity.

In addition to the suggestions above, we believe the PCAOB should establish an effective date for this proposed rule. Although we believe the intent is for this rule to be effective upon issuance, establishing an effective date in the rule would provide clearer guidance.

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,

William G. Holland
President, NSAA

NASACT EXECUTIVE DIRECTOR

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