



California
Society
of Certified
Public
Accountants

May 20, 2009

Sherry Hazel
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

**RE: Exposure Draft of Proposed Statement on Auditing Standards
Materiality in Planning and Performing an Audit (Redrafted)**

Dear Ms. Hazel:

The Accounting Principles and Auditing Standards Committee (the AP& AS "Committee") of the California Society of Certified Public Accountants ("CALCPA") is pleased to provide our comments to the Auditing Standards Board ("ASB") on this Exposure Draft ("ED").

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

1) The concept of "materiality" presented in paragraph 2 ought to be drafted as a specified "definition" and included within the definition section of the proposed SAS. In that regard, the "concept of materiality" ought to include at least a footnote reference to the FASB's Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information," which presents a clear definition of materiality as: "The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on this information would have been changed or influenced by the omission or misstatement."

2) The third bullet in paragraph 2 states: "The possible effects of misstatements on specific individual users, whose needs may vary widely, is not considered." The Committee believes the needs of known specified users, ought to be considered in the audit planning stage, and in establishing materiality. Therefore, the Committee recommends the sentence be modified from "is not considered" to "may be considered."

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3) Paragraph A8. states that the materiality for a period or more or less than 12 months relates to the financial statements prepared for the financial reporting period presented. The examples given are a new entity or a change in accounting period. There are two problems: First, if the audit period is short, say three to six months, historically, materiality was generally related to an annual period, to screen out the effects of relatively small numbers that look big in the short period: Disclosure would deal with any aberrations. Second, if the period is a normal interim period (not dealt with in the draft, possibly because such periods are not audited), materiality was historically considered in relation to the annual reporting period, which is consistent with APB Opinion No. 28, paragraph 9, which states: "Accordingly, the Board has concluded that each interim period should be viewed primarily as an integral part of an annual period."

As might be expected, judgment in measurement and disclosure is important, and short periods can raise difficult issues. Thus, for example, the materiality judgment applied to measurement of an unusual item might be based on the annual numbers, but disclosure based on the quarterly numbers.

The Committee suggests that paragraph A8. be deleted. Paragraph 10 says that an auditor should determine materiality for the financial statements as a whole, and that is sufficient, and leaves sufficient room for the auditor to apply judgment for other than an annual period.

4) The definition of "clearly trivial" which is introduced in the proposed SAS "Evaluation of Misstatements Identified During the Audit" ought to be presented in this proposed SAS, as setting a dollar amount as "clearly trivial" is generally done during the planning stage of an audit, and setting overall engagement materiality. In addition, "trivial materiality" ought to be added to the list of required elements of materiality to be documented as set forth in paragraph 14.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "JoAnn Guattery". The signature is fluid and cursive, with a large initial "J" and "G".

JoAnn Guattery, Chair

Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants