



# National State Auditors Association

## EXECUTIVE COMMITTEE

**President**  
DEBBIE DAVENPORT  
Auditor General  
Arizona

**President-Elect**  
WALTER J. KUCHARSKI  
Auditor of Public Accounts  
Virginia

**Secretary/Treasurer**  
LYNN CANTON  
Deputy Comptroller  
State Services  
New York

**Immediate Past President**  
RUSSELL W. HINTON  
State Auditor  
Georgia

JANICE MUELLER  
State Auditor  
Wisconsin

DAVID A. VAUDT  
Auditor of State  
Iowa

ELAINE M. HOWLE  
State Auditor  
California

## NASACT EXECUTIVE DIRECTOR

R. KINNEY POYNTER  
Lexington, Kentucky

## CONTACT INFORMATION

Headquarters Office  
449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503-3590  
(859) 276-1147  
Fax (859) 278-0507

Washington Office  
444 N. Capitol Street, NW  
Suite 234  
Washington, DC 20001  
(202) 624-5451  
Fax (202) 624-5473

[www.nasact.org](http://www.nasact.org)

December 14, 2009

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 *Audits of Group Financial Statements (Including the Work of Component Auditors)*.

We have reviewed the proposed SAS and generally agree with the provisions contained therein. Below we have provided our response to the three issues for consideration and 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.

### *Issues for Consideration*

1. *Should auditors be permitted to make reference to the audit of a component auditor in the auditor's report on the group financial statements?*

We believe auditors should continue to be permitted to make reference to the audit of a component auditor in the auditor's report on the group financial statements. We realize that the ISA does not recognize this option. However, practice in the U.S. environment has been to refer to component auditors. We do not believe that public accounting firms serving as component auditors could break from existing practice and allow group auditors complete access to their work. In addition, the inability to reference the work of other auditors would add unnecessary complexity and cost to the audit process. This is especially true for audits of governments where component units are often audited by other auditors.

2. *Does the illustrative auditor's report clearly articulate the degree of responsibility assumed by each auditor when reference to the audit of a component auditor is made?*

We believe the illustrative auditor's report clearly articulates the degree of responsibility assumed by each auditor when reference to the audit of a component auditor is made. It is consistent with current practice, and has worked well.

3. *Does the proposed SAS make appropriate distinctions between what is required of the auditor when making reference and when not making reference?*

Without referring to paragraph 7, it is difficult when going through the proposed SAS to always be sure which paragraphs apply to situations when making a reference and when not making a reference. To eliminate this confusion, we suggest reorganizing the "requirements" section of the proposed SAS to create separate sections for: (1) Requirements applicable in all situations, (2) Additional requirements when assuming responsibility, and (3) Additional requirements when making reference to component auditors (if necessary). Application materials would be organized accordingly. Another option would be delineate this information in a table format.

We also noted an area where the requirements are not clear with respect to the group auditor's involvement with the component auditor. Specifically, paragraphs 14, 15, A70, and A71 create confusion and uncertainty about complying with paragraphs 14 and 15 when making reference. Paragraph 7 indicates that the provisions in paragraphs 14 and 15 apply regardless of whether the auditor decides to make reference to the audit of the component auditor. However, paragraphs 14 and 15 are not clear with regard to what sufficient appropriate audit evidence is, or the appropriate involvement in the work of component auditors, when the group auditor is making access. It is also not clear whether these paragraphs even apply when making reference. In addition, the reference in paragraph 14 to A70 and A71 give us the impression that they also apply in all situations although it appears from paragraphs 38 and 39 that paragraphs A70 and A71 only apply when the group auditor is assuming responsibility. We believe paragraphs 14, 15, A70, and A71 need revision and reference changes to address the confusion noted above. Further, we believe additional discussion is needed to clearly indicate what the group auditor is required to do with respect to "involvement", "sufficient appropriate evidence", and appropriate "access" when the group auditor intends to make reference to the component auditors.

#### *Guide for Respondents*

In response to the questions posed by the Board with regard to the proposed SAS, we believe the objectives; convergence revisions; and differences between the proposed SAS and ISA No. 600 are appropriate.

However, we believe that guidance for governmental entities is lacking. As such, we suggest the Board consider including explanatory guidance specific to government considerations addressing items such as:

- Control, Oversight and Responsibility – The standard assumes a level of auditor access to components and component auditors that is similar to private sector companies. Many governmental entities have component units that may be separate legal entities over which the primary government has no control or oversight. In addition, there are cases where the auditor of the primary government lacks the legal authority to perform an audit of a component unit. As currently written, this standard infers that those charged with governance over the group also have oversight over the various components of the group.
- Communication With the Component Auditor – In a government environment, there are many instances where components of the group government have additional components and there are different auditors for the various components. It is not clear in the proposed SAS whether the requirements (such as the requirements in paragraph 48) apply to the first layer of components, or could apply also to components of components. We are assuming that the requirements only apply to the first layer of components as applying the requirements to components of components could be a difficult task for the group auditor. It would be helpful to add an explanatory paragraph that clarifies that if there are several layers of component auditors, the group auditor only communicates to the immediate component auditor, then that component auditor, who is also a group auditor, communicates to the next layer, etc.

#### *Other Comments*

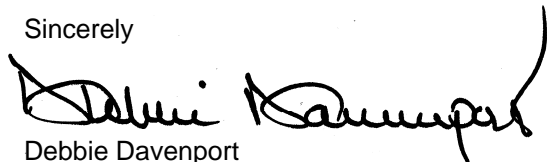
- Paragraph 30.c. – We agree with the concept of determining materiality for a component when not making reference, but we are not sure of the value of calculating it when making reference. Particularly when, as stated in paragraph A57, we are not required to communicate that materiality to the component auditor.

Ms. Sherry Hazel  
December 14, 2009  
Page 3

- Paragraph 52 – The requirement in this paragraph seems to apply regardless of whether the group auditor is making reference. However, we do not believe it is necessary for the group engagement team to evaluate a component auditor’s communication when making reference.
- Paragraph A49 – This paragraph should be in the standard rather than in Section A, since it is not merely explanatory in nature.
- Paragraph A57 – The last sentence states, “Component materiality for those components for which the group engagement partner is making reference to the audit of a component auditor need not be communicated to the component auditor.” We suggest this be added to paragraph 30 (rather than in the application material) since it is not merely explanatory in nature.
- Paragraph A73 – The wording in this paragraph needs to be clarified. Since paragraph 46 indicates auditors “should” perform subsequent events procedures and A73 says procedures “may include reading available interim financial statements...and making inquiries of group management,” we want to be certain that the procedures in A73 are generally sufficient or that subsequent events procedures may be limited to those listed in A73 and that other subsequent events procedures aren’t also required, such as reviews of minutes.

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 (602) 553-0333.

Sincerely

A handwritten signature in black ink, appearing to read "Debbie Davenport". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Debbie Davenport  
President, NSAA