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December 14, 2009

Mr. Mike Glynn  
Audit and Attest Standards  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Mr. Glynn:

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 *Related Parties* (Redrafted).

We have reviewed the proposed SAS and generally agree with the provisions contained therein. Below we have provided our response to the guide for respondents, and have 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?

Yes, the objectives of the auditor are appropriate.

2. Are the revisions made to converge the existing standard with ISA 550 appropriate?

We acknowledge that the proposed SAS only includes the first of the two related party definitions described in the ISA, and we agree that in U.S. GAAP, all four standards setters have some form of related party requirements. However, we are now left with a definition that is very nonspecific and is not really a definition at all—it is just a reference. We believe the definition in paragraph 10 should be revised to at least discuss the common characteristics of related parties (to all four U.S. GAAPs). For example, it would seem appropriate, and very simple, to include a description that says related parties include situations in which the entity is controlled by another entity, the entity controls another entity, or the entity shares a common control with another entity.

3. Are the differences between the proposed SAS and ISA 550 identified in the exhibit, and other language changes, appropriate?

Yes, the difference between the proposed SAS and ISA 550 identified in the exhibit, and other language changes, are appropriate.

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

Paragraph A1 was not in the ISA, and rather than provide application guidance, only serves to give one general example for FASB and one general example for IFRS while ignoring GASB and FASAB. One option would be to add to this paragraph examples from GASB and FASAB (for example, GASB Statement Number 14, as amended, contains presentation or disclosure requirements for various entities depending on the degree of financial accountability that exists.). Another option is to just delete the paragraph rather than attempt to provide single examples of related party disclosures.

Paragraph 14 appears to require an understanding of specific controls that is in addition to the requirements of AU 314 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. While it may be assumed that the potential for significant related party transactions is such that obtaining an understanding of controls over these types of transactions is a necessary part of the auditor's risk assessment for large, complex private organizations, the same assumption does not hold true for smaller, less complex governmental entities. In audits of small or less complex governments, auditors may obtain sufficient appropriate audit evidence through other required risk assessment procedures that no non-trivial related party transactions have occurred. In such cases, controls over related party transactions are hypothetical or trivial and the requirements of paragraph 14 would be unnecessary. To improve the appropriateness of the standard for audits of smaller, less complex entities and governmental entities, we suggest the Board do one of the following:

- a. Add explanatory material to paragraph 18 to reference requirements of AU 314 and describe how those requirements would relate to related party transaction objectives in smaller, less complex entities; or
- b. Add explanatory material to paragraph 14 to emphasize that the paragraph does not impose any requirements in addition to AU 314 and that an understanding of controls would not be necessary when the auditor has adequate assurance through other risk assessment procedures that no non-trivial related party transactions have occurred.

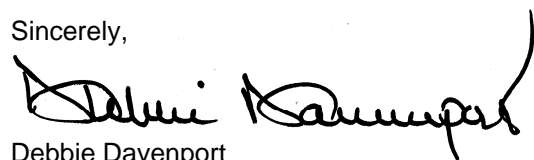
#### Comments

Paragraph 20 – In the matrix to the Exposure Draft, paragraph 20 includes the phrase *and should extend beyond inquiry of management* at the end of the first sentence. In the actual ED, that phrase is not included. Obviously, one is right and one is not. We believe the final standard should not include the phrase. That is, we agree with the ED and not with the matrix.

Paragraph 22.a – This paragraph includes a reference to the application guidance included in paragraph A29. However, we believe the reference should be paragraph A27.

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,



Debbie Davenport  
President, NSAA