July 10, 2013

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 Using the Work of Internal Auditors.

We have reviewed the proposed SAS and generally agree with the provisions contained therein. Below we have provided our response to the issue for consideration and the guide for respondents noted in the exposure draft. We have also provided a couple of suggestions that we believe the Board should consider as it finalizes this document.

Issue for Consideration – The ASB is specifically seeking respondents’ views on the proposed requirements and application guidance relating to using internal auditors in a direct assistance capacity and whether the changes from the requirements and guidance included in ISA 610 (Revised 2013) are appropriate.

We agree with the requirements and application guidance for using internal auditors in a direct assistance capacity. Therefore, we believe the changes to the requirements and application guidance in ISA 610 (Revised 2013) relating to using internal auditors in a direct assistance capacity are appropriate.

Guide for Respondents

In response to the questions posed by the Board with regard to the proposed SAS, we believe the objectives; convergence revisions; differences between the proposed SAS and ISA 610 (Revised 2013), identified in the exhibit, and other language changes; and considerations for audits of smaller, less complex entities and governmental entities are appropriate.

Other Comments

- Paragraph A15 – The discussion in this paragraph regarding a possible self-review threat when an external auditor provides internal audit services to an audit client should be reflected in the Requirements section of the standard. Left in the exposure draft as a statement of fact that a self-review threat exists in an Application and Other Explanatory Material paragraph belies the fact that additional auditor procedures are necessary before an auditor can rely on the work of the internal auditor. The Requirements section of the SAS should reflect all the essential requirements of the standard. We believe that if one of the intended requirements of the standard is for external auditors to evaluate possible self-review threats when they have also accepted an engagement to provide internal audit services to an audit client, that this requirement should be specifically discussed in the Requirements section, and not introduced and only discussed in the Application and Other Explanatory Material section of the standard.
• We identified one area we believe the ASB should consider providing additional guidance. The standard does not address situations in which the external auditor desires to use the work of the internal auditor, but management or those charged with governance do not allow such cooperation. Paragraph A7 touches briefly on “constraints or restrictions placed on the internal audit function by management or those charged with governance,” but only in the context of evaluating the ‘objectivity’ of the internal audit function.

While it is clear that the proposed standards do not require external auditors to use the work of an internal auditor, it would be helpful if the proposed standards would provide guidance to address when the external auditor wants to use the work of the internal auditor when desired cooperation does not exist. We recommend that this guidance include how the external auditor addresses whether, or when, this lack of cooperation and/or access to internal audit documentation or reports rises to the level of a “scope limitation” in certain situations.

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 (651) 296-2551.

Sincerely,

Rebecca Otto
President, NSAA