



December 18, 2014

Ms. Sharon Macey  
Audit and Attest Standards  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Macey:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's proposed Statement on Standards for Attestation Engagements entitled *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting: Clarification and Recodification*.

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

*Issue for Consideration*

Yes, we believe the revised structure facilitates understanding and implementation of the standards.

*Guide for Respondents*

1. *Are the objectives of the practitioner in the ED appropriate?*

Yes, we believe the objectives of the practitioner as described in paragraph 8.7 of the ED are appropriate.

2. *Are the substantive and language changes to extant AT section 801 made by the ED appropriate?*

Yes, generally substantive and language changes to extant AT section 801 are appropriate. However, we do suggest the Board clarify the distinction between using internal control testing work of internal auditors performed under the internal auditor's own direction (report disclosure required), and using internal auditors to perform internal control work at the direction of the service auditor (no report disclosure required). We suggest modifying application paragraph 8.A63 as follows:

There is no **required** identification in the description of tests of controls and results of the service auditor's **report when using** ~~use of~~ internal auditors to provide direct assistance **under AT 2.35**. (Ref: par. 8.37j[v])

3. *Are there consideration for less complex entities and governmental entities that should be addressed in the exposure draft?*

When auditors perform an examination of internal controls at a service organization which is a governmental entity, the detailed results of information system security tests may be exempted from the Freedom of Information Act when deficiencies are identified. In such circumstances,



inclusion of the information may unnecessarily expose governments and taxpayers to system security risks. Conversely, exclusion of the information may prevent user entities from being able to fully assess the magnitude of findings in the context of their risk assessments. We believe the Board should consider additional application and other explanatory material in correlation to section 8.37 to provide general guidance the service auditor may consider when laws restrict the level of detail that may be reported for deficiencies involving information system security or when reporting those deficiencies increases the security risk to the service organization.

#### *Other Comments*

- General – We agree with the Board’s decision to require the use of professional judgment in determining the person(s) with whom the service auditor is to **interact** regarding particular matters, such as representations from responsible parties. However, we believe the Board should require service auditors to **communicate** the results of an examination of controls at a service organization to those charged with governance. The results of an examination of controls at a service organization can have far reaching consequences, including as it pertains to the service organization retaining and soliciting clients. As a result, we believe it is important that the Board require service auditors to communicate results of the examination to the person(s) who are ultimately charged with organizational oversight. We are aware that this requirement is not in proposed AT Chapter 2; however, we suggest the Board consider adding it to Chapter 2 and others as necessary.
- Paragraphs 8.20 and 8.A32 – We believe the Board should consider moving the content of section 8.A32 to section 8.20. We believe the content of 8.A32 defines the components of risk of material misstatement which auditors should identify. Given the importance that the auditor assesses the risk of material misstatement for all of those components which are applicable, we believe that information is more effectively communicated within the requirement paragraphs.
- Paragraph 8.A31 – This paragraph references, but does not correlate to paragraph 8.19 about internal audit functions. Reviewing extant AT801 reveals that this paragraph should tie to paragraph 8.A30 and back to paragraph 8.18. The references between paragraph 8.A31 and 8.19 should be removed and paragraph 8.A31 should be included in the reference from 8.18.
- Paragraph 8.A35 – This paragraph is only referenced to/from paragraph 8.23.c and d; yet, the application guidance in this paragraph addresses the lead-in paragraph of 8.23 as well as paragraph 8.23.a and b (in addition to c and d). The ASB should change the reference in the lead-in paragraph of 8.23 from 8.A34 “and” 8.A36 to 8.A34 “—” 8.A36.

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 (501) 683-8605.

Sincerely,

Roger Norman  
President, NSAA  
Legislative Auditor, Arkansas