



December 10, 2014

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 *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements*.

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

Guide for Respondents

1. *Are respondents aware of any unintended consequences that would result from moving the content of extant AT section 501 from the attestation standards into GAAS?*

Although paragraph 1 of the proposed SAS states that it applies when an auditor is engaged to perform an audit of internal control over financial reporting (ICFR) that is integrated with an audit of financial statements (integrated audit), we are concerned that auditors may believe this proposed SAS is applicable to **all** financial statement audits. In addition, we believe that moving AT section 501 into GAAS may eventually produce an expectation for auditors to issue an opinion on internal control over financial reporting.

To avoid this misunderstanding/expectation, we suggest clarifying the scope of the standard. Specifically, we believe the Board should more clearly explain that this standard is **only** applicable when an auditor is engaged to provide an opinion in ICFR in an integrated audit. We also suggest the Board add an application paragraph that states that this proposed statement does not impose additional responsibilities on the auditor beyond those prescribed in other sections of GAAS for the purposes of issuing an opinion for financial statements unless or until an auditor is engaged to perform an audit of ICFR in an integrated audit.

2. *Do respondents agree with the approach the ASB has taken in proposing a separate standalone SAS instead of addressing an integrated audit in each relevant existing AU-C section?*

We strongly agree with keeping this subject matter as a standalone SAS/AU-C section. First and foremost, many financial statement audits are not integrated audits. There is no reason to complicate the standards for these engagements. Even for those performing integrated audits, it might be confusing distinguishing between financial statement and ICFR audit requirements. Although the audits are integrated and some of the audit procedures overlap, each audit still has to be completed in and of itself. Second, it follows the precedent of AU-C 935, *Compliance Audits*, in providing and explaining the requirements of an additional engagement that



accompanies the financial statement audit. Finally, the approach in this proposed statement and AU-C 935 makes sense for explaining how all other AU-C sections fit in, what the additional requirements are, and how an auditor should modify and adapt certain requirements for the specific audit.

3. *Do the respondents agree with the approach the ASB has adopted relating to the 2013 COSO framework?*

We agree with the inclusion of the specific requirements for evaluating the five components of the 2013 COSO framework, and appreciate that the proposed statement also allows auditors to adapt and apply the standard when management uses other internal control frameworks such as the Green Book.

4. *Does the defined term significant class of transactions, account balance, or disclosure have the effect of better aligning terminology with minimal impact on practice?*

We agree the defined term *significant class of transactions, account balance, or disclosure* will have the effect of better aligning terminology with minimal impact on practice.

Other Comments

- Paragraph 5 – We noted the definition of “Deficiency in internal control” written in paragraph 5 is identical to the definition provided in AU-C 265; however, the other definitions provided have meanings not specifically addressed in other sections of GAAS. We believe inclusion of the definition of “Deficiency in internal control” is inconsistent with the board’s intent to include only definitions which are new to GAAS.
- Paragraphs 11 and A13 – There is some confusion about ICFR audits as of dates between these two paragraphs. Paragraph A13 indicates that if an audit of ICFR is at a date that is different from the end of the entity’s fiscal year, the audit is to be integrated with a financial statement audit as of “that” date. It is unclear in this paragraph whether “that” date is referring to the different ICFR audit date versus the fiscal year-end date. However, paragraph 11 indicates that if engaged to audit the ICFR for a “period of time,” the requirements and guidance should be modified accordingly and be integrated with a financial statement audit that covers the same time period. This seems to imply that the audit of ICFR must be as of the same date as the financial statements whether or not it is at fiscal year-end, but it is not completely clear in this paragraph whether “period of time” could mean less than an entire fiscal year. We believe paragraph 11 should specify that “period of time” could be less than an entire 12-month period, referring to paragraph 46, which provides specifics about timing of obtaining evidence. We also suggest the Board, in both paragraphs A13 and 11, clearly state that the ICFR audit as of date must be the same as the period end date covered by the audited financial statements even if that date differs from the fiscal year-end date.
- Paragraph 21 and A25 – Paragraph 21 clearly states that when the auditor uses the work of others, he/she must adapt and apply, as necessary, the requirements in AU-C section 610. However, paragraph A25 is not so clear. In fact, because paragraph A25 explicitly states that AU-C 610 applies when using the work of internal auditors but makes no similar statement regarding using the work of others, it implies auditors would not have to apply AU-C 610 when using the work of others. The requirement to adapt and apply AU-C 610 when using the work of



others is clear in the explanatory memorandum on page 5, fourth bullet, and in paragraph 21. We believe the Board should revise paragraph A25 to make it consistent with paragraph 21 and remove the ambiguity on this issue.

- Paragraph A40 – We believe this paragraph is misplaced and should be moved before paragraph A38 and referenced to paragraph 26. This would make the placement of this reference consistent with similar references under each of the other four internal control components.
- Paragraphs A75 and A76 – The guidance in these paragraphs could be combined since they both essentially explain things that provide greater evidence, including testing over a longer period of time and testing more extensively. In addition, the last sentence of paragraph A75 is not necessarily true. Testing performed closer to the as of date may not necessarily provide more evidence than testing performed earlier in the year; however, it is important because it provides more timely evidence at the ICFR opinion's as of date.
- Paragraph A149 – This paragraph provides proposed amendments to various sections in SAS No. 122. With regard to proposed amendments to AU-C Section 265, the proposed statement indicates there are no amendments to paragraphs 265.01-.06. However, we noted that extant AU-C 265.04 states that the "section is not applicable if auditor is engaged to report on the effectiveness of an entity's internal control over financial reporting under AT section 501." Since AT section 501 is expected to be withdrawn when the proposed SAS is issued as a final standard, we recommend the Board revise AU-C 265.04 accordingly.
- Paragraphs 26 and 40 – We noted "Error! Reference source not found" in these two paragraphs. We recommend the Board correct these references.

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