December 9, 2014

Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the Tennessee Department of Audit, Division of State Audit, we thank you for the opportunity to comment on the Exposure Draft (ED), *An Audit of Internal Control over Financial Reporting That Is Integrated with An Audit of Financial Statements*. We generally agree with the amendments proposed in the ED.

Issue for Consideration:

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? **We generally agree with the proposal; however, we are concerned that auditors will misinterpret that this standard applies to all financial statement audits.** We suggest explicitly indicating that this requirement does not apply unless the auditor was engaged to opine on internal control over financial reporting. Referring in the scope (¶1) to “performing an audit” is too broad and could be incorrectly interpreted that testing controls and opining are required.

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 this approach.**

3. Do the respondents agree with the approach the ASB has adopted relating to the 2013 COSO framework? **We agree with the approach and with also including the GAO Green Book reference.**

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 that the term does better align.**
We have the following general comments and suggestions to improve the document:

1. In ¶6, we suggest adding a reference to Exhibit C to clarify what is meant by management’s report or include clarifying language in the application and explanatory material.
2. For ¶A8, also refer to the nonattest services requirements of the GAO, Government Auditing Standards (Yellow Book).
3. For ¶A9, we suggest that the last bullet should read “capable of being monitored and evaluated by the entity and those charged with governance.”
4. For ¶A13, we believe the intent of “as of that date” is referring to the financial statement date. If that is the case, this needs to be clarified to ensure no misinterpretation.
5. For ¶8, we believe the “available criteria” should be appropriate and reasonable for the industry in which the entity operates.
6. For ¶11, we suggest adding to the application and explanatory material language to clarify if “period of time” is intended to be different than the fiscal year end. Since “period of time” could be for less than one fiscal or calendar year, we believe this should be clarified.
7. For ¶A20 and the bullet referring to legal or regulatory matters, we believe there should be some expectation that management has identified a complete and accurate listing of all applicable laws and regulations.
8. For ¶28, we believe the completeness and accuracy of the information should be addressed in the requirements.
9. For ¶31 (last bullet), we believe , including note disclosures” should be added to the end of the phrase.
10. For ¶39, we believe the controls to test should be focused on those that are significant or key controls. We believe this principle should be established early in the requirements so that the intent of testing is clear to auditors that not all controls have to be tested.
11. In regard to ¶46, we suggest that a “sufficient period of time” should be a minimum of six months, similar to the requirements for SOC 1 Type 2 reports.
12. Throughout the document “important” is used to describe controls (e.g., ¶A77). We suggest changing “important” to significant to be consistent, unless the meaning is intended to be different.
13. For ¶58, we suggest adding a reference to Exhibit C ¶A152 in a application material paragraph.
14. For ¶A100, we believe the “may be” guidance is inconsistent with the “should” requirement in ¶62.
15. For ¶65, we believe the requirement to communicate is too broad and should clarify that deficiencies identified as insignificant should be excluded from the requirement.
16. We believe the explanatory material in ¶A111 should actually be moved to the requirement in ¶76 (i.e., the auditor should disclaim an opinion, rather than “would.”).
17. For ¶81, we recommend that Government Auditing Standards (GAS) be added as a reference with PCAOB.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz (615) 747-5262 (Gerry.Boaz@cot.tn.gov) or me at (615) 747-5251.
Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit