December 22, 2014

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

Dear Ms. Macey:

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), *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting: Clarification and Recodification*. We generally agree with the amendments proposed in the ED.

Issue for Consideration:

1. Are the objectives of the practitioner in the ED appropriate? **We generally agree that the objectives are appropriate.**
2. Are the substantive and language changes to extant AT Section 801 made by the ED appropriate? **We agree that the changes are appropriate.**
3. Are there considerations for less complex entities and governmental entities that should be addressed in the ED? **We agree with the approach.**

We have the following general comments and suggestions to improve the document:

1. For ¶8.A.1, we suggest adding the definition of **internal control** to the glossary, instead of the application and explanatory material.
2. For ¶8.2, we suggest adding explanatory guidance indicating that the requirement to comply with all requirements in Chapters 1 and 2 was a presumptive requirement in that it would be rare instance that the auditor/practitioner did not comply.
3. For ¶8.6, the effective date from the explanatory memo needs to be added.
4. In the definition of service organization (page 22), one point that might need to be clarified is whether a service organization could be part of the user entity (e.g., a computer services division of a governmental reporting entity’s department of finance and administration in order to provide information technology shared services to the entity as a whole).

5. In regard to ¶8.A.17, we suggest that the definition of monitoring of controls be added to the glossary rather than in the application and explanatory material.

6. For ¶8.A.24 & 8.A.62, we suggest adding a reference to or adding information similar to the auditor’s procedures related to the use of the internal audit function (i.e., AU-C 610). The intent of this suggestion is to provide additional guidance and procedures the auditor should consider beyond those procedures in ¶8.37v.

7. For ¶8.A.31, we suggest modifying the language to “Inquiring of management and others, including the internal audit function,…); otherwise, this guidance does not link as well to ¶8.19).

8. For ¶8.A.34, we suggest amending the language in the 3rd sentence to “…for detecting intentional errors or omissions, including fraud,…..”

9. For ¶8.26 and 8.31, should management override of controls be addressed similar to AU-C 315.

10. For ¶8.A56, we believe adding examples of “information provided” and “information outside” would be beneficial to clarify the Board’s intent.

11. For ¶8.A.61, we believe verifying the completeness and accuracy of information should be a “should,” not “may include.” This would be similar to the requirement in the GAO Government Auditing Standards.

12. For ¶8.A.70 (last bullet), we suggest including guidance when government auditors are required by law to perform the engagement and cannot withdraw from the engagement.

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