

July 10, 2013

Via e-mail: shazel@aicpa.org

American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

Re: Auditing Standards Board Exposure Draft
Using the Work of Internal Auditors

The Accounting Principles and Auditing Standards Committee (the "Committee") of the California Society of Certified Public Accountants ("CalCPA") respectfully submits its comments on the referenced proposal. The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 40,000 members. The Committee is comprised of 53 members, of whom 47 percent are from local or regional firms, 27 percent are from large multi-office firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international firms.

1. Are the objectives to be achieved by the auditor, stated in the proposed SAS, appropriate?

The objectives set forth in paragraph #12 ought to address the external auditor's need to evaluate the objectivity and competence of the internal audit function early in the process of considering when, and if, the external auditor can use the work of internal auditors. In addition, the opening sentence might be better worded by replacing the words: "When the entity has an internal audit function and the external auditor expects to use the work of internal auditors..." with "When an entity has an internal audit function and the external auditor is considering using the work of internal auditors..."

2. Are revisions from the existing standards to converge with ISA 610 (Revised 2013) appropriate?

The Committee believes the proposed revisions are appropriate.

3. Are the differences between the proposed SAS and ISA 610 (Revised 2013) identified in the exhibit, and other language changes, appropriate?

The Committee believes the contents of the exhibit are adequate.

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4. Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

The Committee is not aware of the need for special guidance for less complex entities and governmental entities with regard to the use of internal auditors.

5. Other Comments / Questions

In the Issues for Consideration section, it is noted that the ASB is not aware of any significant audit failures attributed to using internal auditors in a direct assistance role. Nevertheless, the Committee believes the *appearance* of independence may be easily compromised in this scenario.

5a. - A33 second sentence – The Committee does not understand how looking at items not actually examined by internal auditors is considered to be reperformance?

5c. – A36 – The Committee believes the proposed standard is too liberal in accepting the idea that internal auditors can achieve sufficient objectivity for their work to be relied upon. This is especially evident in using internal auditors for direct assistance. The Committee believes the presumption should be that an internal auditor's ability to be objective is compromised, thereby limiting the nature of direct assistance to the most routine of tasks. This concept gets some recognition in A40, which acknowledges that the internal audit function is not independent, but the remainder of the ED treats independence and objectivity as two completely different attributes. The Committee is concerned that can an internal auditor really be objective if he or she is truly not independent? The Committee recommends the ASB reevaluate this important idea.

5d. – A37 – The Committee understands that while it is appropriate for the external auditor to evaluate the competence of the internal auditor in deciding if the internal auditor can provide assistance, and determining what that assistance will be, it should be recognized and discussed in the proposed standard that this has the potential for placing the external auditor in a very uncomfortable position when his/her decision is not to use the internal auditor because of competence issues and this then has to be explained to management and those charged with governance in the client organization.

The Committee would be glad to discuss its comments further should the ASB have any questions or require additional information.

Very truly yours,



Michael D. Feinstein, Chair
Accounting Principles and Auditing Standards Committee
California Society of certified Public Accountants