

*new york state society of*

**NYSSCPA**

*certified public accountants*

530 fifth avenue, new york, ny 10036-5101  
www.nysscpa.org

March 30, 2004

Jan Munro  
IFAC Ethics Committee  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

By e-mail: [EDcomments@ifac.org](mailto:EDcomments@ifac.org)

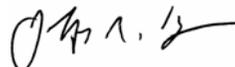
Re: ISA 600 (Revised), "The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements" and IAPS, "The Audit of Group Financial Statements."

Dear Ms. Munro:

The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, welcomes the opportunity to comment on the above-mentioned IFAC proposed pronouncements. The Society appreciates the opportunity to respond to the above captioned exposure draft.

The NYSSCPA's International Accounting and Auditing Committee deliberated these proposed pronouncements and prepared the attached comments. If you would like additional discussion with the committee, please contact Robert N. Waxman, chairman of the Committee, at (212) 468-7820, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,



Jeffrey R. Hoops  
President

Attachment

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**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**INTERNATIONAL ACCOUNTING AND AUDITING COMMITTEE**

**COMMENTS ON**

**ISA 600 (Revised), “The Work of Related Auditors and Other Auditors in the Audit  
of Group Financial Statements”**

**And**

**IAPS, “The Audit of Group Financial Statements.”**

**March 30, 2004**

**Principal Drafters**

**William Stocker  
Elizabeth K. Venuti**

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**New York State Society of Certified Public Accountants**  
**COMMENTS ON**  
**ISA 600 (Revised), “The Work of Related Auditors and Other Auditors in the Audit**  
**of Group Financial Statements” and**  
**IAPS, “The Audit of Group Financial Statements.”**

**General Comments**

The proposed pronouncements represent improvements to the existing guidance on group audits. Group audits present unique problems for the group auditor, the related auditor, and the other auditor. Group audits ordinarily present a higher than average level of engagement risk and, as such, the role of each of these auditors needs to be carefully articulated. Communication among these auditors and an understanding of each other’s responsibilities is of the utmost importance. The proposed pronouncements address these issues.

**Specific Comments on ISA 600 (Revised), “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements”**

1. Paragraph 8: The materiality or magnitude of the components in relation to the group are of utmost importance and should be emphasized in this paragraph. Items to be considered in evaluating ‘magnitude’ should be enumerated, such as, but not limited to, total assets, net income, volume of transactions, etc. This paragraph should also mention the group auditors’ preliminary understanding of the other auditors’ understanding of the financial reporting framework. Paragraph 21 addresses this issue in a slightly different context. The group auditor should consider whether they will have adequate control over the audit at both the group and component levels.
2. In paragraph 10, the use of word ‘directly’ is inconsistent with wording used elsewhere in the document. Instead, the word ‘directly’ should be replaced with “by the group auditor.”
3. In paragraph 13, changes in the materiality of the component should also be considered. Changes in materiality may indicate a heightened audit risk.
4. In paragraphs 15, 26, 34, and 37, the group auditor is asked to consider the “professional qualifications, independence, professional competence and resources of the other auditor, and the quality control process of the other auditor’s firm.” Furthermore, paragraph 21 asks the group auditor to evaluate whether the related auditor or other auditor has sufficient understanding of the ISA’s. These are very strong and necessary procedures; however, the statement does not offer any practical advice for performing these steps.

What would constitute sufficient evidence that these procedures have been performed adequately?

5. In paragraph 19, when access to component information, component management, or the other auditor is limited or denied, there is indication of elevated risk, and the ethics and integrity of group and component management are brought into question. Considering the materiality of the component is not enough. When ethics are brought into question, nothing is immaterial.
6. The standard refers to the professional responsibilities of the 'group auditor.' Within the context of this standard, the 'other auditor' has professional responsibilities to the group auditor. The responsibilities of the other auditor to the group auditor should be enumerated.
7. The 'identified uncorrected misstatements' referenced in paragraphs 22 and 33, whether material or not, raise concerns about internal control over financial reporting and cooperation by group and component management.
8. Paragraph 24 states that the other auditor's communications 'ordinarily' are addressed to the group auditor and not intended for distribution to third parties. This wording could be improved by adding "unless distribution of specific communications to specified third parties were communicated to the other auditor pursuant to paragraph 21."
9. In paragraphs 25 and 31, the word 'should' may have different interpretations when the IAS is translated and should be replaced with the word 'must.' Also in paragraph 31, the wording indicates that the group auditor has an option whether to refer to the circumstances surrounding the group auditor's inability to obtain sufficient appropriate audit evidence. If not referencing these circumstances is not an option then 'may' should be replaced with 'must.'
10. Division of Responsibility (page 5 of the "explanatory memorandum" and paragraph 35): Even if national standards or laws permit division of responsibility, the international standards do not have to follow; they could and should require the group auditor to take responsibility. If national standards do not permit division of responsibility, then the international standards could still allow it. That would just mean that an unqualified auditors' report would not meet the entity's requirements for that jurisdiction; it should not make it violation of the international standards. Further, if following national standards results in not meeting IAS standards, then a qualification of the audit opinion should ordinarily result under international auditing standards. Likewise in paragraph 37, if one or more auditors failed to comply with IAS (e.g., national standards differed from ISA's), then there may be a scope limitation or qualification.

11. The first two sentences of paragraph 38 are repetitive.

### **Specific Comments on IAPS, “The Audit of Group Financial Statements”**

1. The comments above on the ISA 600 ED about the other auditors’ knowledge of the financial reporting framework also apply to paragraph 10 of the proposed IAS.
2. The comments above about the group auditors’ consideration of the “professional qualifications, independence, professional competence and resources of the other auditor, and the quality control process of the other auditor’s firm” apply to paragraphs 10 and 19 as well. Procedures for executing these responsibilities should be articulated.
3. The comments above with respect to access to component information apply equally to paragraph 18 in this document.
4. Paragraph 13 says that it will be unusual for a group auditor to accept an engagement....unless the group auditor will be able to participate *appropriately* in the work....” (emphasis added). Paragraph 9 of the proposed IAS provides some explanation. Perhaps the paragraph should say that the auditors should consider whether they are able to participate in the other auditor’s work to the extent required by par. 9 of IAS 600.
5. Paragraph 88 indicates that the group auditor should communicate with those charged with governance of the entity about the approach taken to determine the scope of work to be performed by other or related auditors. It may be necessary in most circumstances to do this because arrangements must be made for the other or related auditors to work. It might, however, be better to not let those in the organization know whether the procedures are, for example, an audit with group materiality considerations, or instead are specific procedures. In light of the “unpredictability” called for in the new fraud standards, it might be particularly useful if those in charge of governance are not informed of these matters.