International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, New York 10017

Submitted electronically at: IAASB Submit Comment link

Re: Proposed ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA’s Auditing Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Bonnie S. Mann Falk, Chair of the Auditing Standards Committee, at (516) 984-7225, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Edward L. Arcara  
President

Attachment
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP
FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)
AND PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER
ISAS

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Comments on
Proposed ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs

We welcome the opportunity to respond to the International Auditing and Assurance Standards Board’s (IAASB or the Board) invitation to comment on proposed International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs (the ED).

Our comments follow the structure of the questions as presented in Section 3 Request for Comments of the ED.

Overall Questions

1. With regard to the linkages to other standards:

   (a) Does ED-600 have appropriate linkages to other ISA’s and with the proposed ISQCMs?

   The ED is well-organized and links the proposed revised ISQCM standards and several “foundational” standards that are in the process of being contemporaneously revised. We do not know if other revisions contemplated for other standards or for projects currently in a research phase, such as data analytics (which could have an impact on many aspects of a group audit) might be part of a latter omnibus revision or integrated in some other way. We believe all cross-referenced standards should be hyperlinked in the final standard so all users can readily understand their impact when those links are opened and read.

   (b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the application material in other relevant ISAs, including ISA 220 (Revised). Are there special considerations for a group audit that you believe have not been addressed in ED–600?

   The approach and organization of the ED is appropriate to fulfill the objective of providing helpful and understandable guidance to attain high quality group audits.

   The introductory section of the ED, with its links to the timeline development of the revisions, is helpful for understanding why the revisions were needed and how the staff and the Board responded. The significant matters presented in Section 2 are helpful for
understanding the detail in the standard application paragraphs, how and why those matters were evaluated, and the specific proposed “significant” changes. This section is integral to the ED since several changes are subtle but are important to understand.

We believe the background information should mention the issuance of the staff practice alert, “Responsibilities of the Engagement Partner in Circumstances Where the Engagement Partner is Not Located Where the Majority of the Work is Performed.” This material is covered somewhat in the ED but not in the same way or at the same level of detail.

Tangential to the question of whether the ED incorporates other relevant ISAs, is our disappointment with the post-implementation review of the clarified auditing standards. This is principally because we believe the Board should have identified Audit Sampling (ISA 350) as a foundational standard currently in need of substantive revision because we believe it is conceptually flawed in several respects. (See our detailed comments about ISA 350 under Question 12.) This standard is significant to basic auditing and is an underpinning for materiality concepts.

2. With respect to the structure of the standard, do you support the placement of subsections throughout that highlight the requirements when component auditors are involved?

We believe the structure is helpful for both group and component auditors to focus on their respective responsibilities and implementation considerations and that the interaction of firms and individuals within those firms and with individuals in component firms is a critical process. In many large group audits the direction and supervision of the engagement process itself is a full-time process for one or more individuals. The focus on common goals and objectives are improved over the extant auditing standard when elements are explained for each process.

3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

Although skepticism is a basic auditing concept, we believe reinforcement of it in the areas most prone to auditors’ judgments is a useful addition.

Specific Questions

4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would you be more appropriate and practicable).
We agree with the scope, applicability, and definition proposed in the ED, consequently the ED provides more flexibility in its application. The audit strategy applied to these concepts is more generic and flexible and may differ from the entities’ legal organization or tax structure. When applied in the audit process, the identification and response to risks by auditors are enhanced. The characterization of, and linkage to, the consolidation process as a key element in the proposed definition is useful for differentiation.

5. **Do you believe the proposed standard is scalable to different sizes and complexities, recognizing that group financial statements as defined in ED-600 include the financial information of more than one entity or business? If not, what suggestions do you have for improving the scalability of the standard?**

Scalability can always be a problem as size and complexity are important constraints. We have members involved in small entity audits in which many audit adjustments were proposed as a result of control deficiencies, management competency deficiencies, or other reasons. Until the auditors are immersed in their work, the true nature of the specific risks is often unknown. When fraud surfaces, the audit work expands exponentially. One-size-fits-all approaches do not work; however, a thoughtful, risk-based approach can be efficient when experience, diligence and professionalism come together. In budgeting audit engagement time, we have found over the years that when more time is invested in planning, the engagement quality and efficiency usually improve, and last-minute surprises are often avoided.

6. **Do you support the revised definition of a component to focus on the auditor view of the entities and business units comprising the group for purposes of planning and performing the group audit?**

Yes, we believe the auditors’ focus in the proposed revised definition fits the objective of risk-based auditing.

7. **With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular whether ED-600 appropriately addresses restrictions on access to information and people in ways in which the group engagement team can overcome such restrictions?**

Access restrictions to people and information are generally more likely in a group audit spanning across several countries or geographic areas, or where the entities’ assets and activities are in countries where governments are the driving economic force.

If restrictions surface and become an issue late in the audit cycle, they could become an insurmountable problem. We believe the ED recognizes the complexity that restrictions pose and provides for helpful guidance and support to both alleviate the problem and allow auditors viable solutions or a path to disengage.
8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? The IAASB is interested in views about:

(a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?

The ED and its application material clarify responsibilities of the group and component auditor(s) and provides for enhanced communication and interaction on a timely basis. The quality of the work is significantly enhanced when the knowledge base about the client and its business and environment is shared, especially in regard to risk.

The component auditor may have more direct knowledge about risks affecting the component, including legal, operational, governance, taxes and industry risks and current economic and other changes. This is especially true during the global pandemic. The component auditor(s) should not feel insulated, so the proposed standard is clear that such matters must be shared with the group auditor who needs this information with regard to all significant components, and needs to approach the group financial statements with this knowledge in hand, to assure proper risk assessments and responses with respect to the consolidated financial statements.

Many audit failures have occurred when risks are not identified or improperly assessed. The proposed application material provides focused guidance under professional skepticism, and communication to allow auditors to understand what is important and how to work together effectively.

(b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?

The proposed communication elements are clear, appropriate, and flexible, without being overly burdensome. However, there are practical problems group auditors may need to address with component auditors such as delays in critical communication which can lead to an inappropriate response, no response, or a truncated response.

Other problems include the client’s involvement not being obtained when that is important, when knowledge by the component auditors of the issue is insufficient, or the requisite responsibility for responding resides with the wrong personnel. In many instances the inquiry itself may generate a whole host of other issues. Some of these matters should be addressed by the firms’ QM systems and the management of certain elements of an audit in ISQC-1 and the ED on ISA 220. We also believe that additional guidance should be included in the standard on audit evidence currently being revised. A case study or studies included in an education program on communication also would be a good vehicle.
An issue arises, albeit rarely, when communication cannot resolve a difference of opinion between auditors. A resolution of the matter acceptable to all parties is generally required, but if the component auditors’ position is intractable and that view is adequately documented in the file, the group auditor can take responsibility for the resolution without further action. In such cases, the client should be advised at a senior management or governance level if deemed necessary.

(c) What practical challenges may arise in implementing the risk-based approach?

Practical challenges that may arise include:

- Competency of the engagement team or the engagement partner may be impaired by complacency, diversion, or another reason.
- Experience of the engagement team may be lacking, *i.e.*, insufficient to the tasks required.
- Procedures may be omitted, or less effective procedures substituted, due to time constraints.
- Budget pressures may generate impetus for shortcuts in procedures.
- The decision process may not follow firm guidance.
- Experts may not be used when needed.
- Businesses may be interrupted due to unforeseen risks (*e.g.*, pandemic-related).

9. Do you agree with the application material on the commonality of controls and centralized activities, and is this material clear and appropriate?

The inclusion of the application material is useful and dovetails with the flexibility objectives of the multiple auditing frameworks discussed in the ED to effectively plan and perform group audits. It should be clear, however, when following the guidance in the application material that it is optional and subject to auditor’s judgment.

10. Do you support the focus in ED-600 on component performance materiality, including the application material that has been included on aggregation risk and factors to consider in determining performance materiality?

Component performance materiality is a useful auditing concept grounded in statistical theory. We endorse this concept as proposed, but believe it should be made clear that, although maximum levels are established by the group auditor, they must be accepted by the component auditor(s).

Allocation of materiality to assets/assertions/tests has been in use by auditors for many years in establishing the scope of their procedures; and may be used in misstatement evaluation when statistical sampling drives primary tests, and the decisions encompassing the evaluation of sufficiency of evidence.
We believe the Board should provide some quantitative guidance to practitioners to be able to use materiality allocations efficiently and effectively. We know that the large international auditing firms provide this guidance in their practice aids, which may involve the use of the “square root of the sum of the squares.” This method is one such application which can be easily applied through a computerized model. We understand the Board’s reluctance to depart from a principles-based model, but, in this case, we think the benefit will be helpful to many auditors. The base used in the squaring exercise would contain all components in the consolidated group including unaudited components, components for which audit procedures are applied only to certain selected accounts or assertions, and components only subject to review procedures. The practical effect of this method would be to provide for an efficient and effective allocation of materiality based on the quantitative significance of the components.

11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:

(a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?

Several of the foundational standards referenced contain specific documentation requirements; those requirements should be hyperlinked in the final standard, perhaps using a table.

In addition, we believe there should be some precautionary language disclosing that regulators in many countries have their own requirements about content and file retention (including electronic files) as well as countries, states and provinces having their own specific rules (including ethics rules) and laws.

The ISQMs require each firm to follow its own policies and procedures. Component auditors need to understand that the group auditor may impose its own documentation requirements on the component auditor. The final standard should state that such an understanding is always better for a positive interaction when it is done early and is explained.

(b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement teams’ audit documentation when access to component auditor documentation is restricted?

We believe that providing some documentation alternatives, such as providing a summary or a dialog of meetings or analysis of files that were read but were unable to be copied, would be useful to provide a defense in the event of a problem surfacing after the fact. Restrictions are not unusual, but client-imposed restrictions can be problematic. We believe the final standard should recommend consideration of a legal consultation (not to be mandated except if by firm policy).
12. Are there any other matters you would like to raise in relation to ED-600?

We expected that the foundational standard on audit sampling would have been identified in the Board’s implementation review of the clarified auditing standards as requiring revision, but we regret that has not occurred. We firmly believe, however, that ISA 350, is flawed conceptually and requires revision (as discussed further below).

We refer the Board to our May 29, 2009 comment letter to the AICPA Auditing Standards Board (ASB) containing our detailed paragraph-by-paragraph critique of the then proposed US clarified standard (https://www.nysscpa.org/docs/default-source/commentletter/aicpa09c.pdf); it is virtually the same as ISA 350 except for a few changes made after the comment letters were vetted when the final standard was issued.

In preparing this letter, the drafters of our 2009 comment letter desired to ensure that the comments in our earlier letter were still viable, so we reviewed again both the International and U.S. Standards, and reviewed the AICPA Financial Reporting Center report issued by the AICPA in 2014, which provided a listing of differences between the U.S. and International Clarified Standards. On the basis of that review, we believe the issues identified in 2009 are still pertinent.

We believe our letter of May 29, 2009 is self-explanatory, and we wish to continue to emphasize the importance of a focus on audit sampling.

There is an opportunity to revise the international audit sampling standard in conjunction with the ongoing revision of the international audit evidence standard. Since the conceptual flaws identified in our 2009 comments centered on highly technical statistical theory and issues, we recommend that a future revision of ISA 350 entail the consultation of a well-credentialed statistics professor from a major university.

In order to mitigate any concerns about differences between the extant sampling standards, we are listing the following changes included in AU-C 530, after the time the ASB vetted the comment letters and issued the final standard.

Differences between extant ISA 350 and AU-C 530:

- The definition of audit sampling in AU-C 530 was changed during its development process to focus on conclusions about the population and include the concept of representativeness.
- A discussion of anomalies in para. 13 of ISA 350’s discussion of misstatements was dropped in the U.S. standard.
- AU-C 530.14 was expanded during its development process to include a discussion of projection of misstatements in a sample of a population, to include projections for tests of controls and test of compliance.

A brief summary of some conceptual flaws identified in our May 29, 2009 letter that persist in the current standards follows:
• Nonstatistical and statistical sampling are placed on an equal footing.
• The standards permit the auditor to disregard readily obtainable and statistically valid results from a probability sample by labeling the sample as nonstatistical.
• The standards permit an erroneous approach to sample evaluation by emphasizing the sample point estimate to risk factor rather than using a confidence interval.
• The standards perpetuate some technical errors that were in U.S. SAS 39 (1982) and deleted some significant relevant items contained in that document.
• The standards do not provide a statistical basis for proposing an adjusting journal entry to correct for misstatements but rather provides a basis for rationalizing or disregarding sample results.

We hope the Board will lead by correcting these flaws and inspire the ASB to converge its sampling standard accordingly.

13. The ISB is also seeking comments on the matters set out below:

(a) Translations – Recognizing that many respondents may intend to translate the final ISA for adaption in their own environments, The IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.

We have no comments on translations.

(b) Recognizing that the ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support implementation of the ISA.

We believe 18 months would afford an acceptable and appropriate timeframe for adoption.