



National Association of State Boards of Accountancy

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International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, NY 10017

Via website: www.iaasb.org

Re: Proposed ISA 600 (Revised) – Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

Dear IAASB Members and Staff:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Proposed ISA 600 (Revised) – *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600). NASBA’s mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories. Our comments on ED-600 are made in consideration of the Boards’ of Accountancy charge as regulators to protect the public interest.

In furtherance of that objective, NASBA offers the following comments on the questions as presented in the ED-600.

Overall Questions

Request for Comment 1:

With respect to the linkages to other standards:

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

- (a) NASBA believes it is important to emphasize ISA 600 is complementary to the other “foundational” ISA standards. We believe ED-600 has appropriate linkages to the “foundational” ISAs and the proposed ISQMs. We especially support the footnotes provided throughout with exact paragraph references for ease of referencing.
- (b) NASBA believes the ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (revised) and is not aware of any other special considerations for a group audit which should be addressed in ISA 600.

Request for Comment 2:

With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?

NASBA supports the placement of subsections to highlight the requirements when component auditors are involved. It is helpful to have the requirements separated so that it easier to identify the incremental procedures when component auditors are involved.

Request for Comment 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?

NASBA supports reinforcement of professional skepticism in ISA 600 and believes paragraphs 5 and A9-10 of ED-600 accomplish that objective.

Specific Questions

Request for Comment 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 be more appropriate and practicable).

NASBA believes the current focus on a consolidation process in defining group financial statements can be confusing. There could be situations where components share accounts and general ledgers, but where the activity and documentation reside in different locations. Paragraph A-17 would seem to exclude certain activities from the scope of ISA 600. IAASB should consider whether this needs additional study and if revised implementation guidance is necessary.

Request for Comment 5:

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

NASBA believes ED-600 is scalable to groups of different sizes and complexities.

Request for Comment 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?

We support the ED-600 requirement to take an “auditor view” of the group for the purposes of planning and performing the group audit.

Request for Comment 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 and ways in which the group engagement team can overcome such restrictions?

NASBA supports addressing restrictions on access prior to accepting or continuing group audit engagements. NASBA believes ED-600 appropriately addresses restrictions on access and ways in which the group engagement team can overcome such restrictions.

Request for Comment 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? In particular, the IAASB is interested in views about:

- (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?*
- (b) Whether the interactions between the group engagement team and the 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?*
- (c) What practical challenges may arise in implementing the risk-based approach?*

NASBA believes the risk-based approach in ED-600 should result in an appropriate assessment of the risks of material misstatement and appropriate response to the assessed risks.

- (a) NASBA would like to emphasize the importance of the group engagement team's accountability for an appropriate assessment of the risks of material misstatement on a group audit. As recognized in ED-600, for the group engagement team to be successful, it has to have a thorough and complete understanding of the business including inherent risks, major processes and internal controls. NASBA believes this can be challenging in the larger and more complex group audits. ED-600 encourages component auditor involvement in assessing risks of material misstatement when the group engagement team considers such involvement appropriate. NASBA has some concerns regarding the possibility of insufficient involvement of component auditors resulting in an incomplete or inaccurate assessment by the group engagement team. The IAASB may want to consider providing more emphasis in ED-600 on use of component auditors for this purpose.
- (b) NASBA believes ED-600 clearly and appropriately describes the expected interactions between the group engagement team and component auditors.
- (c) As the IAASB is aware, many component auditors may be performing an audit of the local financial statements of a branch, subsidiary or investee to meet local laws and regulations or possibly at the request of group or local management. The scope of this audit work may be more than what is required for group audit purposes. NASBA believes it is important that this work be appropriately coordinated. If done timely, this work can contribute to the overall quality of the group audit. Even if not done timely, this work can enhance the overall understanding of the business. The IAASB should consider if it would be appropriate to provide additional guidance and application material regarding how this should be coordinated and the related communications between the group engagement team and the component auditors.

Request for Comment 9:

Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?

NASBA supports the additional application material on the commonality of controls and centralized activities.

Request for Comment 10:

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

NASBA appreciates the difficulty of providing more specific guidance or a methodology for the assignment of performance materiality to components. ED-600 is clear that component performance materiality should be set at an amount lower than group performance materiality to address aggregation risk. However, the IAASB may want to consider additional application material or implementation guidance in the form of an example of how an assignment might be made. Please refer to the article “Component Materiality for Group Audits” in the AICPA’s *Journal of Accountancy* (November 30, 2008) for one example that provided helpful guidance when it was issued.

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

NASBA supports the enhanced requirements and application material on documentation. NASBA believes the linkage to ISA 230 is clear.

- (a) NASBA believes the documentation requirements of paragraph 57 of ED-600 are appropriate.
- (b) In circumstances where the group engagement team’s access to component auditor documentation is restricted as described in paragraph A-129 of ED-600 and the matter is significant, NASBA suggests the IAASB consider expanding the application material in A130 to emphasize a review of the component auditor documentation by the group engagement team is necessary. Further consideration should be given to reminding the group engagement team to document information sufficient to allow an experienced auditor to understand the nature, timing and extent of the work performed by the component auditor.

Request for Comment 12:

Are there any other matters you would like to raise in relation to ED-600?

NASBA would like to offer comments on the following matters:

- Paragraph A34 states in evaluating whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary, the group

engagement team may obtain an understanding of whether the group engagement team will have unrestricted access to the component auditor, including relevant audit documentation sought by the group engagement team. The language “may obtain” is permissive and not obligatory. There should be an understanding at the outset about the ability to have unrestricted access to the component auditor. Otherwise, at some point during the audit, the group engagement partner may realize that restrictions on access that were not anticipated at the outset of the engagement will have a material negative impact on the group audit. We recommend that obtaining an understanding at the outset of the engagement be made mandatory.

- Paragraph 45 states that “...the group engagement team shall: ... (b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor’s audit documentation...” Including “the extent to which” means that the review, if any review is needed, can be of the entire documentation or only parts of it. We recommend deletion of the phrase “parts of” from paragraph 45.

Request for General Comments 13:

The IAASB is also seeking comments on the matters set out below:

- (a) Translations – Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.*
 - (b) Effective Date – Recognizing that 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 reporting 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 effective implementation of the ISA.*
- (a) We have no comment on the potential translation issues for ED-600.
 - (b) NASBA supports the proposed effective date with early adoption permitted and encouraged.

We appreciate the opportunity to comment on ED-600.

Very truly yours,



Laurie J. Tish, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO