

September 23, 2020

To: International Auditing and Assurance Standards Board, ISA 600 Task Force

RE: Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 45,000 members. The Committee consists of 54 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee has the following responses to the Request for Comments

Overall Questions

1. *With respect to the linkages to other standards:*

(a) *Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?*

Yes, we agree that ED-600 has the appropriate linkages to other ISA's given the principle that the requirements of this group audit standard are intended to build upon rather than replace requirements in foundational standards.

(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)?*

Yes.

(c) *Are there other special considerations for a group audit that you believe have not been addressed in ED-600?*

No.

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?*

We are appreciative and supportive of efforts to improve the quality of group audits involving component auditors. We have some reservations with the length and breadth of the standard in that we found important portions obscured by the reiteration and clarification of existing principles such as emphasizing the importance of professional skepticism in a group audit. Since such a significant portion of ED-600 involves situations and complexities arising where component auditors are involved, we suggest that the IAASB consider issuing a separate update to group audit standards to more clearly address those situations involving component auditors.

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?*

Yes, however we believe that reinforcement of professional skepticism has been adequately covered in other standards and it becomes redundant.

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?*

Yes, we understand that the entry point into the group audit standard is where auditor is engaged to audit group financial statements and that group financial statements exist where there is financial information of more than one entity or business unit. Paragraph 2. indicates that a “key” factor is whether financial information is prepared through a consolidation process which includes, by definition in paragraph 11, consolidation, aggregation and by “presentation” in combined financial statements.

(a) *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).*

We support and are appreciative of improvements to group standards particularly concepts and definitions of common internal controls and aggregate risk. We suggest that commentary and explanations of integration with other, already applicable standards such as risk assessment would be better left out of this update. A more direct update to the standards would be appreciated. As noted above, we also suggest that changes and updates involving component auditors should be made in a separate update where all of the issues involving component auditors can be found. We believe that the most important of the new requirements, which includes coordination and communication with component auditors, risk aggregation, and integration of the auditors understanding of common controls, should be emphasized. And while we understand that the standard is intended to be principles based, we suggest further guidance for the group auditor in coordinating cross border audits that can involve such complexities as language, legal and cultural barriers. We believe it is in the public interest to expand guidance in that area.

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 the financial information of more than one entity or business unit?*

Yes, it is scalable.

(a) *If not, what suggestions do you have for improving the scalability of the standard?*

N/A

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 are supportive of allowing the auditor to use his judgement in defining components

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?*

We agree with and support the enhancements and application material.

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?*

Yes, we believe that the respective responsibilities are clear and are supportive of the guidance afforded to the group auditor in carrying out his responsibilities for communication, risk assessment, overall audit strategy, etc.

(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?*

We suggest additional guidance for circumstances that change due to reasons beyond the group auditor’s control.

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

Given that every audit utilizes a risk-based approach, we do not believe that there are any additional challenges than those that are already known. More specifically, a risk-based

audit involves significant evaluation of control systems and procedures, targeted substantive testing and so forth. Developing an understanding, communicating and coordinating, at both the group and component audit level, a common strategy for evaluating and testing common and local controls, is expected to be a practical challenge.

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

We agree with the material presented in the Appendix and relative to the classification of a control as “common”, we suggest additional guidance at A61 relative to the impact of individuals operating in diverse environments impacted by local practices, training, aptitude and other factors influencing inherent risk.

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?*

Yes we support this focus and we would like to see additional application material with respect to aggregation risk. For example, there may be mathematical techniques that are appropriate and available such as the “square root of the sum of the squares” method for allocating materiality.

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?*

No

(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?*

No we do not necessarily agree. As written, the inference is that the group auditor can always work around this problem by providing narratives regarding the unobtainable documentation. This may be sufficient and appropriate audit evidence in some circumstances, but not necessarily all circumstances. We would like to see consideration of the possibility of a scope limitation.

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

No

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.

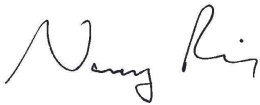
We have nothing to add.

(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.

We believe at least 24 months, particularly given disruptions due to Covid-19.

We thank you for the opportunity to comment on these matters. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Rix".

Nancy A. Rix, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants