



September 29, 2020

International Auditing and Assurance Standards Board (IAASB)  
Via IAASB website

Re: Exposure Draft, *Proposed International Standard on Auditing 600 (Revised) Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs*

Dear IAASB,

CohnReznick appreciates the opportunity to comment on the exposure draft (ED), *Proposed International Standard on Auditing 600 (Revised) Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs*

CohnReznick is the 14th largest accounting firm and the 8<sup>th</sup> largest assurance practice in the U.S., with its origins dating back to 1919. We support the IAASB in its overall mission to serve the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our response to the exposure draft will give you perspective into the unique impact these changes might have on small and medium-size entities and their ability to attract capital.

Our responses to specific questions on which the IAASB is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Assurance, at +01.646.601.7740 or [steven.morrison@cohnreznick.com](mailto:steven.morrison@cohnreznick.com).

Yours truly,

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

## ATTACHMENT

(For readability, the questions and requests for comments from the ED are reproduced below and bolded).

### **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?**

We believe ED-600 has 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?**

We believe 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). At this time, we do not note any other special considerations for a group audit that you believe have not been addressed in ED-600.

#### **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 support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved. We believe this will be helpful to auditors and further reinforce the fact that ED-600 also applies even though a component auditor may not be involved.

#### **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?**

While we do believe the requirements and application material of ED-600 appropriately reinforces the exercise of professional skepticism in relation to an audit of group financial statements, we encourage the concept of professional skepticism be expanded upon. Specifically, we encourage the IAASB to look to the recently issued AICPA Auditing Standards Board Statement on Auditing Standards 142, Audit Evidence, and paragraphs A17, A30, A31, A37, A38, A60, and A63. These paragraphs describe ways in which the auditor can maintain professional skepticism. We believe auditors may benefit from a similar number of examples of professional skepticism focused on group audits.

## 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 be more appropriate and practicable).**

While we believe the scope and applicability of ED-600 is clear, to address the misperception that the concept of a group audit only applies when another independent auditor is involved, that the name of the standard be renamed to the following: *Special Considerations—Audits of Group Financial Statements (Including When One Auditor Audits the Whole Consolidation)*.

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

We believe the proposed standard is scalable to groups of different sizes and complexities.

**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 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 believe this approach will be more functional than what exists in extant ISA 600 and help auditors more directly focus on risks of material misstatement.

**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?**

With respect to the acceptance and continuance of group audit engagements, we support the enhancements to the requirements and application material. While ED-600 cannot be expected to anticipate every situation, we believe ED-600 appropriately addresses various restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions.

**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?**

The respective responsibilities of the group engagement team and component auditors appear to be clear and appropriate.

**(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 interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

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

Overall, we are supportive of a risk-based approach and believe it is consistent with ISA-315 and other relevant standards. We believe in some circumstances, in part due to the confusion in extant ISA 600, practitioners may not properly implement ED-600. We recommend extensive implementation guidance be developed and released in advance of the effective date.

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

Overall, we do support the additional application material on the commonality of controls and centralized activities. In a number of circumstances, we believe this application guidance may aid auditors in what can be a difficult audit area, particularly in a multi-component environment.

**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?**

We support the focus in ED-600 on component performance materiality, including the additional application material included on aggregation risk and factors to consider in determining component performance materiality. We are supportive of a principles-based approach to component 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?**

At this time, we do not note any specific matters that we believe should be documented other than those described in paragraph 57.

**(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?**

At this time, we do not object to the proposed 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.

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

We have the following matters we wanted to raise:

- We believe the application guidance on aggregation risk may be expanded to include examples as indicated below:

.A11 Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. For example, (1) procedures may be performed at such a global level so as not to notice smaller similar errors that may aggregate to an amount material to the group financial statements, or (2) procedures may be performed at such an extensive level of disaggregation that the auditor does not notice common elements that may be indicative of a larger misstatement at the group financial statements.

- We believe the IAASB should consider allowing the group auditor the option to not assume responsibility for, and thus, accordingly, make reference to, the audit of a component auditor in the auditor's report on the group financial statements. This is consistent with both AICPA AU-C 600 and PCAOB AS 1205. We do recognize that this may add complexity to the standard and potentially create confusion in practice. However, the benefits of the added flexibility may decrease costs and address complexities that may arise between international borders.
- We request the IAASB consider use of visual aids, such as flowcharts, in ED-600 (and in standard-setting overall). Such may help facilitate more clear and concise discussions amongst members of engagement teams, national office/professional practice functions, and auditees. Also, a flowchart on group audit requirements may help group auditors and component auditors in different countries more effectively communicate, particularly when there is a language difference.

### 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.**

As we are a US-based firm operating substantially completely in English, we do not have visibility into the needs of other jurisdictions regarding translation.

**(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 the effective date would provide a sufficient period to support effective implementation of the ISA.