December 15, 2009

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

By e-mail: shazel@aicpa.org

Re: Proposed Statement on Auditing Standards, *Audits of Group Financial Statements* (*Including the Work of Component Auditors*)

Dear Ms. Hazel:

The New York State Society of Certified Public Accountants, representing 30,000 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 Robert N. Waxman, Chair of the Auditing Standards Committee at (212) 755-3400, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

David J. Moynihan
President

Attachment

new york state society of
NYSSCPA
certified public accountants

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED STATEMENT ON AUDITING STANDARDS

AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

December 15, 2009

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New York State Society of Certified Public Accountants

Comments on

Proposed Statement on Auditing Standards, *Audits of Group Financial Statements* (*Including the Work of Component Auditors*)

The New York State Society of Certified Public Accountants welcomes the opportunity to comment on the AICPA Auditing Standards Board's (ASB) proposed Statement, *Audits of Group Financial Statements* (*Including the Work of Component Auditors*). We generally agree with the content of this standard. However, we have identified certain matters as presented on page two which, in our opinion, require clarification.

The following are our responses to the specifically solicited comments on changes resulting from applying the clarity drafting conventions and converging with the ISA and their effect on the content of the proposed SAS:

1) Are the auditor's objectives appropriate?

Yes.

2) Are the revisions made to the existing standards to converge with ISA No. 600 appropriate?

Yes.

3) Are the differences between the proposed SAS and ISA No. 600 identified in exhibit H, and other language changes, appropriate?

Yes.

4) Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

Yes.

5) Is the impact assessment found on page 13 helpful to respondents in their consideration of the proposed SAS?

Yes.

The following are our responses to the specifically solicited issues for consideration:

1) Should the auditors be permitted to make reference to the audit of a component auditor in the auditor's report on group financial statements?

Yes.

2) Does the illustrative auditor's report clearly articulate the degree of responsibility assumed by each auditor when reference to the audit of a component is made?

Yes.

3) Does the proposed SAS make appropriate distinctions between what is required of the auditor when making reference and when not making reference?

Yes.

We believe the following suggestions will improve the clarity of the standard:

Paragraph 4
Responsibilities of Engagement Partner. In paragraph 4 of the standard, reference is made to the proposed SAS *Quality Control for an Audit of Financial Statements*. In this proposed SAS (paragraph 4), the engagement partner is permitted to rely on the firm's system of quality control. It is unclear whether such reliance extends to quality control procedures that may be in place at the firm, or network level, to ensure the quality of the work done by network member firms.

Our concern, described above, takes on added significance when you consider the guidance provided in paragraph 12 which states that the group engagement partner is responsible for (1) the direction, supervision, and performance of the group audit engagement in compliance with professional standards and regulatory circumstances. Requiring the group engagement partner to take responsibility for compliance with professional standards and regulatory and legal requirements around the globe would be difficult if not impossible to achieve. The group engagement partner needs to be able to rely on his or her firm's quality control system to manage this responsibility, or is otherwise charged with an unfeasible burden.

The group engagement partner should make certain inquiries to ascertain that the component auditor is independent and competent, but paragraph 12, as currently worded, expands the partner's responsibility beyond what is appropriate. We do not agree with the requirements as stated.

Paragraph A-12 better describes the responsibility of the engagement partner by stating that the "the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion." (Additionally, we suggest changing the word "or" to "and.")

Paragraph 27

Making Reference to the Auditor's Report. The exposure draft is unclear as to when this applies. This should be applicable only in cases in which a report is required by a regulatory agency such as the Securities and Exchange Commission.

Paragraph 30- 31, A55 – 61

Component Materiality. The exposure draft should further explain how the allocation of component materiality is to be performed. We suggest that some level of guidance be provided in the applications section. The application guidance states that different materiality may be established for different components and that component materiality need not be an arithmetical portion of the materiality for the group financial statements as a whole. The guidance does not say how much the allocation should exceed group materiality, but the squaring exercise firmly addresses this matter. In order to ensure that allocated materiality does not exceed 100% of overall materiality determined for the (consolidated) group, one must apply a valid quantitative method.

Paragraph 36

Components That Are Not Significant Components. We question the usefulness of analytical procedures under the circumstances if they are intended as a substantive test. In order for analytical procedures to be used as a primary test, a level of comfort with the system should be obtained. The proposed standard does not give any guidance as to what level of comfort the auditor needs with the system in order for analytical procedures to be used effectively. If intended as a completion procedure, the purpose of analytical procedures is to determine the adequacy of the work performed prior to the issuance of a report.

Paragraphs 40 - 45

Consolidation Process. Consistent with FIN 46 (r), *Consolidation of Variable Interest Entities*, it is incumbent on the client (and its auditor) to determine whether an entity should be excluded from a group financial statement as a result of the alternative presentation model for variable interest entities when the holder of the variable interest who is the primary beneficiary is not within a group of voting controlled entities. The auditor's principle tasks are to evaluate the accounting appropriate to the presentation of the consolidation. The proposed standard should address this issue and not simply the completeness of the consolidation process. We note this matter is under study by the IASB.