

Summary of Respondents' Comments to the Exposure Draft of Proposed ISA 600 (Revised) and the ISA 600 Task Force's Views and Recommendations

1. This paper summarizes respondents' comments¹ to the following questions in the in the Explanatory Memorandum (EM) to the [Exposure Draft of Proposed ISA 600 \(Revised\)](#)² (ED-600):
 - Question 2 – Separate section for considerations when component auditors are involved (Section I);
 - Question 3 – Professional skepticism (Section II);
 - Question 5 – Scalability (Section III);
 - Question 7 – Acceptance and continuance (Section IV);
 - Question 8 – Practical challenges in implementing the risk-based approach (Section V);
 - Question 9 – Common controls and centralized activities (Section VI); and
 - Question 12 – Other matters (Section VII).
2. This paper also summarizes the ISA 600 Task Force's (the Task Force) views and recommendations in response to the comments.
3. NVivo reports are provided for reference purposes (see table below). The Appendix to this Agenda Item explains the approach to analyzing comments.

Question or Topic	Agenda Paper – Summary of NVivo Analysis	Agenda Paper – Respondent Comments
Question 2	Supplement B.1 to Agenda Item 4	Supplement A.1 to Agenda Item 4
Question 3	Supplement B.2 to Agenda Item 4	Supplement A.2 to Agenda Item 4
Question 5	Supplement B.3 to Agenda Item 4	Supplement A.3 to Agenda Item 4
Question 7	Supplement B.4 to Agenda Item 4	Supplement A.4 to Agenda Item 4
Question 8 (c)	Supplement B.5 to Agenda Item 4	Supplement A.5 to Agenda Item 4
Question 9	Supplement B.6 to Agenda Item 4	Supplement A.6 to Agenda Item 4
Question 12	Supplement B.7 to Agenda Item 4	Supplement A.7 to Agenda Item 4

Section I – Separate Sections for Considerations When Component Auditors Are Involved (Question 2)

4. ED-600 included all requirements related to the involvement of component auditors in a separate section throughout the proposed standard. It was noted that the use of separate sub-sections in each section of the standard that describes the requirements that apply when component auditors

¹ This paper summarizes significant comments received from respondents to ED-600 relating to the themes identified by the Task Force. It does not include all suggestions for additional application material or editorial suggestions.

² Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

are involved would lead to several advantages, including:

- Emphasizing and clarifying the interactions that are needed between the group auditor and component auditors throughout the different phases of the group audit.
- Clarifying that when component auditors are involved, they are an integral part of the engagement team.
- Providing scalability for circumstances where the group auditor does not involve component auditors by making it easier to identify which requirements apply and which do not.

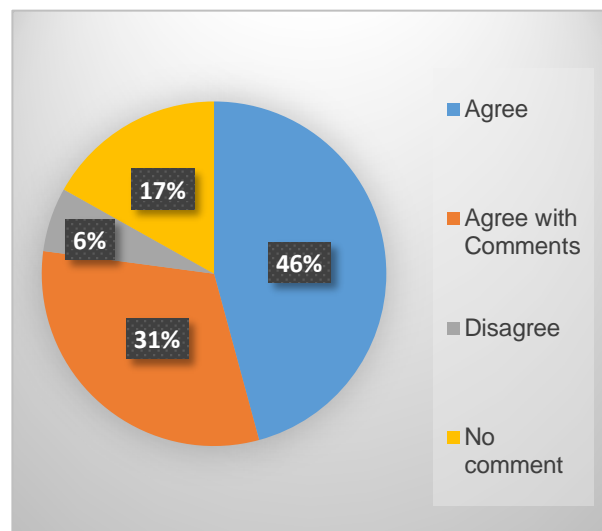
5. Question 2 in the EM asked respondents:

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?

What We Heard

6. Responses to Question 2 were as follows (see the separate NVivo reports for further details):

- 38 respondents agreed with the proposals, including two Monitoring Group members – 46%;
- 26 respondents agreed with comments or concerns – 31%;
- 5 respondents did not agree with the proposals – 6%; and
- 14 respondents did not have a specific response, including two Monitoring Group members – 17%.



Monitoring Group

7. The two Monitoring Group members that agreed with the separate sections for when component auditors are involved noted that the structure reinforces the overall responsibility of the group auditor³ for all aspects of the audit. It was also noted that it further emphasizes that the involvement of the component auditor is a judgment made by the group auditor when applying the foundational standards.

Other Respondents

8. Respondents that agreed with the separate section for when component auditors are involved, highlighted the advantages listed in paragraph 4 above. They also noted that the sections reinforce the overall responsibility of the group auditor for all aspects of the audit.
9. Respondents that disagreed with the proposals or agreed with the proposals but had comments or concerns noted the following points, organized by the themes identified by the Task Force:

³ To have consistent wording, all references made by respondents to 'group engagement team' have been changed to 'group auditor' given the Board decision to change the naming in the.

Scalability

- (a) Respondents were of the view that the sub-sections greatly help with the scalability of the standard. It was noted that the separate sections make it easier for the group auditor to identify which requirements apply and which do not and that these sections may be particularly helpful to smaller/ less complex group audit engagements that are performed entirely by the group auditor.

Importance of Involving Component Auditors

- (b) Respondents highlighted the importance of involving component auditors in a group audit. In that regard, respondents suggested to include a requirement regarding whether to involve component auditors, include a framework for the involvement of component auditors, or enhancing the requirements in ED-600 as they imply that the involvement of component auditors is less preferable to the group auditor performing the work centrally.
- (c) Respondents noted that there is a risk of undermining or discouraging the involvement of component auditors by presenting relevant requirements separately. This structure could be perceived as promoting that the acceptable norm is not involving component auditors in group audits.

Structure of the Headers

- (d) Respondents noted that some sections of ED-600 contain multiple sub-headings which make the standard difficult to follow in places. In this regard, it was suggested to use tables and diagrams to communicate more complex ideas, as was done for ISA 315 (Revised 2019).⁴ Respondents also highlighted areas where the subheadings were incorrect in their view.

Appendix with All Sub-Sections and Related Application Material

- (e) Respondents asked the Board to add an appendix that collects all of the sub-sections on consideration when component auditors are involved, and related application material.

Separate Standard for When Component Auditors Are Involved

- (f) Respondents noted that a significant portion of ED-600 involves situations and complexities arising where component auditors are involved and suggested developing a separate standard to address those situations involving component auditors more clearly.

Task Force Views and Recommendations

- 10. Given the significant support from respondents on the sub-sections for considerations when component auditors are involved, the Task Force is of the view that these sections should be retained in proposed ISA 600 (Revised).
- 11. Based on the comments and suggestions received the Task Force will:
 - Review the headers throughout the standard for clarity and logic.
 - Consider whether Appendix 1 of ED-600 is still needed given the changes made to the standard and the suggestions from the Complexity, Understandability, Scalability and

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Proportionality Working Group.⁵

12. With respect to the comments on the involvement of component auditors more generally, the Task Force is of the view that the changes made to the standard address the concerns from respondents, particularly the addition of paragraph 17A in **Agenda Item 4-C** addressing the overall group audit strategy and the group audit plan.

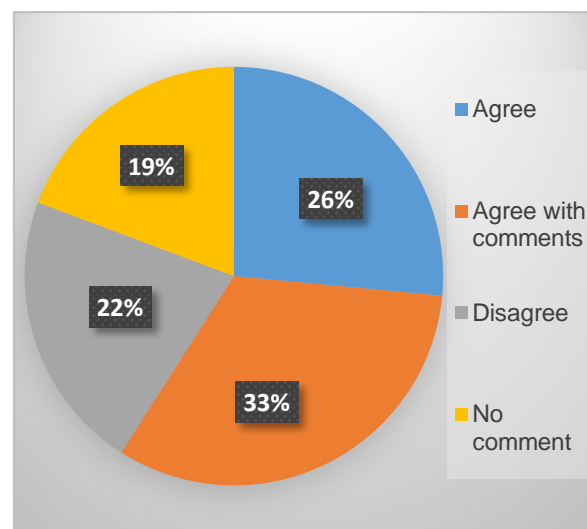
Section II – Professional Skepticism (Question 3)

14. As discussed in paragraph 96 of the EM to ED-600, paragraph 5 of ED-600 highlighted that the exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. This introductory material was further supported by application material that highlights that other ISAs, such as ISA 220 (Revised),⁶ ISA 315 (Revised 2019), ISA 540 (Revised)⁷ and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.
15. In addition to paragraph 5, the IAASB indicated that the following stand back requirements in ED-600 will assist in supporting the exercise of professional skepticism:
 - Paragraphs 49–51 regarding the evaluation of whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on which to base the group audit opinion; and
 - Paragraphs 45–46 regarding the evaluation of whether the communications with component auditors are adequate for the group auditor's purposes.
16. Question 3 in the EM asked respondents:

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?

What We Heard

17. Responses to Question 3 were as follows (see the separate NVivo reports for further details):
 - 22 respondents agreed with the proposals, including a Monitoring Group member – 26%;
 - 27 respondents agreed with the proposals but had comments or concerns, including a Monitoring Group member – 33%;
 - 18 respondents did not agree with the proposals – 22%; and



⁵ See Agenda Item 1 of the IAASB's Mid-Quarter Board Call: <https://www.iaasb.org/meetings/iaasb-mid-quarter-board-call-april-21-22-2021>

⁶ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- 16 respondents did not have a specific response, including two Monitoring Group members – 19%.

Monitoring Group Respondents

18. The Monitoring Group member that agreed with the proposals did not provide any further details.
19. The Monitoring Group member that agreed with the proposals but had comments or concerns commented as follows:
 - (a) Although ED-600 references ISA 315 (Revised 2019), ISA 540 (Revised) and other ISAs that provide examples of how auditors may document their exercise of professional skepticism, consideration should be given to expanding how the use of professional skepticism can be documented. More specifically, this Monitoring Group member had suggestions related to the documentation referred to in paragraph 57(d) of ED-600.
 - (b) Additional suggestions provided by this Monitoring Group member included:
 - With respect to paragraph A9 of ED-600, it would be useful to highlight that there is a risk of unconscious bias when using component auditors that may be part of the same network as the group auditor, and also useful to highlight the additional challenge that arises from the scale and complexity of many groups.
 - The example in paragraph A9 of ED-600 is for the group auditor to remain alert for contradictory information from component auditors. A further example that focuses on the component auditors themselves may help reinforce that paragraph 5 of ED-600 applies to the component auditors as part of the engagement team.
 - Given the risks posed by the complexity of many groups, it would be appropriate for the group auditor to frequently stand back and assess whether the progress of the audit is satisfactory (e.g., regarding the appropriate identification of risks, selection of audit procedures, etc.). Standing back at the risk assessment stage might be particularly important to ensure the group auditor has identified the relevant risks and avoid undue pressure later in the audit if it is found that there are other risks to assess.

Other Respondents

20. Other respondents that agreed with the proposals indicated that paragraph 5 and the related application material in paragraphs A9–A10 of ED-600 appropriately reinforce the exercise of professional skepticism in a group audit. Respondents also expressed support for the stand back requirements in supporting the exercise of professional skepticism.
21. Respondents that disagreed with the proposals or agreed with the proposals but had comments or concerns noted the following points, organized by the themes identified by the Task Force:

Risk-Based Approach and Involvement of Component Auditors

- (a) The decisions by the group auditor regarding the nature and extent of involvement of component auditors may affect the exercise of professional skepticism by the component auditors. If audit procedures are performed centrally by the group auditor, or component auditors are requested only to perform specific further audit procedures, there is a risk that the component auditors may not hold a sense of accountability for their work and their responsibility to the group auditor, which may be detrimental to their exercise of professional skepticism.

- (b) The ability of the group auditor to make informed decisions about the identification and assessment of the risks of material misstatement of the group financial statements depends on the information available to make those decisions. The involvement of component auditors in understanding the entity, and in identifying and assessing risks of material misstatement, can provide useful information given that component auditors may have greater experience and a more in-depth knowledge of the components and their environments.

Linkage to ISA 220 (Revised)

- (c) A stronger link is needed to the requirements in ISA 220 (Revised) as they relate to the group engagement partner's responsibility to establish and communicate the expected behavior of engagement team members, including achieving quality and exercising professional skepticism throughout the audit. This would help to clarify that all members of the group audit engagement team should be proactive in challenging management's explanations and assertions.
- (d) Academic research has highlighted the importance of a team or shared identity between all members of the engagement team to minimize coordination and communication issues. Therefore, application material may be needed that further emphasizes the potential risks to consider when dealing with diverse audit teams and management in a group audit.

Linkage to the Stand Back Requirements

- (e) The references to professional skepticism and the need to stand back could be further reflected and clarified in the relevant stand back requirements and related application material. For example, the application material in paragraphs A9–A10 of ED-600 could be cross-referenced to the requirement in paragraph 49 in ED-600 as the matters discussed in the application material may be most appropriately considered, and in fact may only become apparent, when audit procedures have been performed and audit evidence has been obtained across all components.
- (f) The stand back requirements referred to in the EM already exist in extant ISA 600⁸ and therefore may not significantly enhance the exercise of professional skepticism in a group audit. Instead, the revised standard should focus on specific considerations for group audits.

Additional Guidance or Examples

- (g) Application material that references existing ISAs may not be the most effective way to encourage the exercise of professional skepticism in a group audit. Instead, the application material should provide specific examples of the circumstances where professional skepticism may be relevant in a group audit.
- (h) Professional skepticism can be further reinforced in the requirements in ED-600 instead of the application material. The exercise of professional skepticism in group audit engagements can be pinpointed to certain transactions such as intra-group transactions, transactions that are not at arms-length and related party transactions. Therefore, the exercise of professional skepticism should be heightened in these situations.

⁸ Extant ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (i) The application material discusses some challenges to exercising professional skepticism in a group audit but does not provide much guidance for the group auditor in overcoming those challenges.
- (j) Specific suggestions for guidance or examples of challenges for group audits included:
 - When working to very tight group reporting deadlines, the ability of the engagement team to make appropriate judgments and question management's assertions in an informed manner may be constrained.
 - Guidance on other potential impediments to the component auditor's exercise of professional skepticism, such as unconscious bias as a result of believing that the component auditor's role is simply to follow instructions from the group auditor.
 - An overly complex group structure may itself be an indicator of fraud, and may also require an understanding of intragroup transactions and cash flows, and transfer pricing agreements.
 - Guidance on how the group auditor may need to exercise professional skepticism when reviewing component auditor documentation based on the group auditor's understanding of cultural differences or risks relating to emerging markets.
 - Guidance addressing how the group auditor and component auditors should interact to ensure the proper exercise of professional skepticism.

Other Comments

- (k) The IAASB and the International Ethics Standards Board for Accountants (IESBA) should highlight IESBA's recent [Role and Mindset revisions](#) to its International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) in their respective outreach. The introduction of an enhanced auditing standard on group financial statements, although welcomed, will not by itself necessarily result in improved group financial information being presented by organizations. This will require a holistic approach by the various parties across the corporate reporting ecosystem.
- (l) Although group audits may pose additional challenges due to biases and cultural influences, it will be difficult for the group auditor to assess whether component auditors have exercised professional skepticism in practice.

Task Force Views and Recommendations

- 22. The Task Force noted the support for the approach taken in ED-600 in discussing professional skepticism in the introductory paragraph and related application material. However, the Task Force acknowledged the requests for additional guidance and, in particular, specific examples of challenges to the exercise of professional skepticism or circumstances where professional skepticism may be relevant in a group audit. The Task Force noted that respondents indicated that additional guidance can be provided through implementation support materials.
- 23. Section II-B of **Agenda Item 4** includes a further discussion of the Task Force's views and recommendations for addressing the comments received on professional skepticism, including proposed changes to paragraphs A9–A9C in **Agenda Item 4-C**.

Section III – Scalability (Question 5)

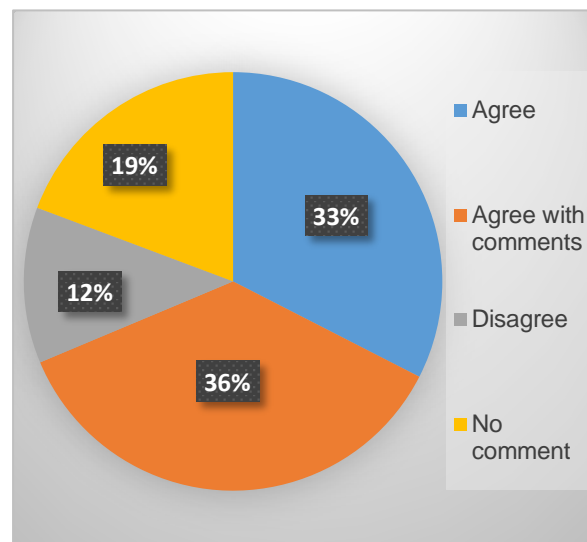
24. As discussed in paragraphs 37–38 of the EM to ED-600, the IAASB noted that many audit engagements are subject to extant ISA 600 given that, as currently defined, a group always has more than one component. However, some concerns may exist about the application of ED-600 to smaller, less complex groups comprised of only a small number of entities or business units.
25. The IAASB noted that such engagements are nonetheless required to apply the requirements of the key underlying ISAs, including the enhanced risk assessment in ISA 315 (Revised 2019) and the enhanced requirements for direction, supervision and review in ISA 220 (Revised). In addition, for some of these engagements, the group auditor may itself be able to perform the procedures necessary to identify, assess and respond to the risks of material misstatement of the group financial statements, without the need to involve component auditors. In these situations, the use of separate sections in ED-600 to highlight the requirements that are applicable when component auditors are involved provides inherent scalability, as such requirements would not be relevant in the circumstances.
26. Question 5 in the EM asked respondents:

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?

What We Heard

27. Responses to Question 5 were as follows (see the separate NVivo reports for further details):

- 27 respondents agreed with the proposals, including two Monitoring Group members – 33%;
- 30 respondents agreed with the proposals but had comments or concerns – 36%;
- 10 respondents did not agree with the proposals – 12%; and
- 16 respondents did not have a specific response, including two Monitoring Group members – 19%.



Monitoring Group Respondents

28. The Monitoring Group respondents that agreed with the proposals noted that ED-600 is scalable to groups of different sizes and complexities, in particular due to the introduction of the risk-based approach and the strengthening of the responsibility assigned to the group auditor in identifying and addressing the risks of material misstatements in the group financial statements. One Monitoring Group member commented on the scalability especially for smaller, less complex groups comprised of only a small number of entities or business units.

29. Other factors noted by a Monitoring Group member that contribute to the scalability of ED-600 included the following:
- (a) By emphasizing the importance of professional skepticism, especially when the group auditor determines the direction of the work of the component auditors, ED-600 highlights the responsibility of the group auditor in the scope of the component auditor's involvement. See Section II above for additional analysis of respondent comments relating to professional skepticism.
 - (b) The use of separate sub-sections provides scalability when component auditors are not involved. See Section I above for additional analysis of respondent comments regarding the use of separate sub-sections.

Other Respondents

30. Other respondents that agreed with the proposals also cited the introduction of the risk-based approach and the structure of the proposed standard (i.e., use of separate sub-sections). Other points noted as contributing to scalability included the ability of the group auditor to use professional judgment in determining components for purposes of planning and performing the group audit, and the ability of the group auditor to tailor the direction, supervision, and review of the component auditor's work based on the nature and circumstances of the engagement.
31. Respondents that disagreed with the proposals or agreed with the proposals but had comments or concerns noted the following points, organized by the themes identified by the Task Force:

Risk-Based Approach and Involvement of Component Auditors

- (a) An important factor affecting the scalability of ED-600 is the extent to which component auditors are involved in the group audit. These respondents pointed to their concerns raised in response to Question 8 of the EM that the strong focus on the group auditor's responsibility and a top-down approach to the group audit may undermine the important role of the component auditor.
- (b) The application of ED-600 would be particularly challenging for larger groups with many components, or complex structures with disaggregated operations in multiple jurisdictions (i.e., upward scalability). This would be the case when the group's entities and business units are situated in countries with different languages, cultures, laws and regulations, and business practices.
- (c) There is a need for a framework for applying the approach and for additional guidance on the involvement of component auditors in planning and performing a group audit. Section III of Agenda Item 4 for the December 2020 IAASB meeting provided a more in-depth analysis of respondent comments in this regard, as well as on the points noted in (a) and (b) above.
- (d) Notwithstanding concerns about the risk-based approach, other areas of ED-600 are principles-based, which would allow the proposed standard to be applied to groups of varying sizes, complexities and circumstances.

Additional Guidance or Examples

- (e) Specific suggestions for additional guidance or examples included:
 - An appendix to the proposed standard, or implementation support materials, illustrating how the requirements can be scaled for different types of group audit scenarios.

- Guidance or examples for applying ED-600 to less complex groups.
- References to relevant sections of ISA 315 (Revised 2019) as the scalability provisions in that standard may be helpful in the application to group audits.
- Scalability considerations for group audits in the public sector.

Other Matters Related to Scalability

- (f) The IAASB should consider writing certain sections of the standard from a standpoint of 'less complex first,' for example, relating to understanding the group and its environment, materiality, and responding to the assessed risks of material misstatement. Respondents also expressed interest in seeing whether, and if so how, the IAASB plans to address audits of less complex groups in its proposed audit standard for less complex entities.

Task Force's Views and Recommendations

32. The Task Force noted the support for the scalability of ED-600, including from two Monitoring Group members, but also acknowledged the concerns raised by other respondents. The Task Force noted that respondents' concerns about scalability generally related to their concerns about the application of the risk-based approach and the need for greater emphasis on the involvement of component auditors.

Previous IAASB Discussions

33. The Task Force presented its analysis of respondent comments on the risk-based approach in Section III of Agenda Item 4 for the December 2020 meeting, along with its initial recommendations for addressing the comments and concerns raised while staying true to the principles of the risk-based approach.
34. Based on the input from the Board in December 2020, the Task Force further developed its thinking on the application of the risk-based approach and made several changes to the draft of proposed ISA 600 (Revised) as set out in Agenda Item 5-A for the March 2021 IAASB meeting. These changes included revisions to the structure of the standard to present a clearer framework for applying the risk-based approach, and more focus on the nature, timing and extent of the involvement of component auditors throughout the group audit.
35. In December 2020, the Board also discussed the Task Force's initial recommendations to address respondent comments on the scope and applicability of ED-600 (see Section I of Agenda Item 4 for the December 2020 meeting). The Board further discussed the Task Force's views and recommendations on scope and applicability in March 2021 (see Section I of Agenda Item 5 for the March 2021 meeting), including scalability considerations.

Risk-Based Approach and Involvement of Component Auditors

36. Subsequent to the March 2021 IAASB meeting, the Task Force continued to refine its thinking about the application of the risk-based approach based on input from the Board. See Section V of this Agenda Item and Section I-A of **Agenda Item 4** for a discussion of the further revisions made by the Task Force. The Task Force is of the view that the changes to the structure of the standard from ED-600, along with clarifications to the requirements and application material relating to the involvement of component auditors, help to address the concerns raised by respondents with respect to scalability.

Scalability Considerations in the Revised Standard

37. As explained in paragraph 28 of Agenda Item 5 for the March 2021 meeting, the Task Force noted that the requirements of proposed ISA 600 (Revised) are intended to be applied in the context of the nature and circumstances of each group audit. Therefore, paragraph A2C was added to the draft as presented in Agenda Item 5-A for the March 2021 meeting to highlight elements of scalability of the revised standard.
38. The Board supported the addition of this paragraph but suggested that it would be more helpful as a separate paragraph in the Introduction to the standard. Accordingly, paragraph 2C is now paragraph 5A in **Agenda Item 4-C**.

Additional Guidance or Examples

39. The Task Force acknowledged the suggestions for additional guidance or examples on how the requirements of proposed ISA 600 (Revised) can be scaled for different types of group audit scenarios. However, the Task Force remains of the view that additional guidance or examples illustrating the scalability to different types of group structures is best done through implementation support materials.
40. The Task Force agreed with respondents that the scalability considerations in ISA 315 (Revised 2019) and ISA 220 (Revised) can be helpful in applying those baseline ISAs to group audits. The Task noted the draft standard presented in **Agenda Item 4-C** contains numerous references to the requirements and application material in those ISAs and will give further consideration to ways in which the scalability considerations in those ISAs can be highlighted in proposed ISA 600 (Revised).
41. The Task Force noted that extant ISA 600 does not include guidance specific to public sector audits, and that the considerations specific to public sector entities in the ISAs are intended to deal with circumstances that are unique to the public sector. Accordingly, the Task Force plans to seek additional input from public sector stakeholders about unique group audit considerations for public sector entities.

Other Matters Related to Scalability

42. The Task Force noted that the scope and applicability of proposed ISA 600 (Revised) will extend to less complex groups. The Task Force will continue to monitor the developments relating to the separate Less Complex Entities (LCE) standard and also will continue to liaise with the LCE Task Force. In addition, the Task Force will further consider areas in proposed ISA 600 (Revised) where scalability considerations could be included or enhanced.

Section IV – Acceptance and Continuance (Question 7)

43. Given the new approach to planning and performing a group audit engagement, the IAASB added paragraph 13 of ED-600 which requires the group engagement partner to make a preliminary determination about whether to involve component auditors. The IAASB also added paragraph 14 of ED-600 and related application material for situations when, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained. In such cases, the group engagement partner is required to consider the possible effects on the group audit.
44. As noted in the EM, there are several different types of access issues that may occur in a group audit. The different types of access issues require a different approach from the group auditor, and it is therefore important to differentiate among them. The IAASB recognized that ED-600 can

help address these issues through application material describing ways to overcome restrictions on access to people or information but cannot enforce access to people and information. Therefore, ED-600 differentiated between restrictions on access to information and people that are outside the control of group management (paragraph 16 of ED-600) and those that are imposed by group management (paragraph 17 of ED-600).

45. ED-600 also included enhanced application material on restrictions, including how the group auditor may be able to overcome various access issues. For example, paragraph A29 of ED-600 included several examples, including on access restrictions related to equity-accounted investments.

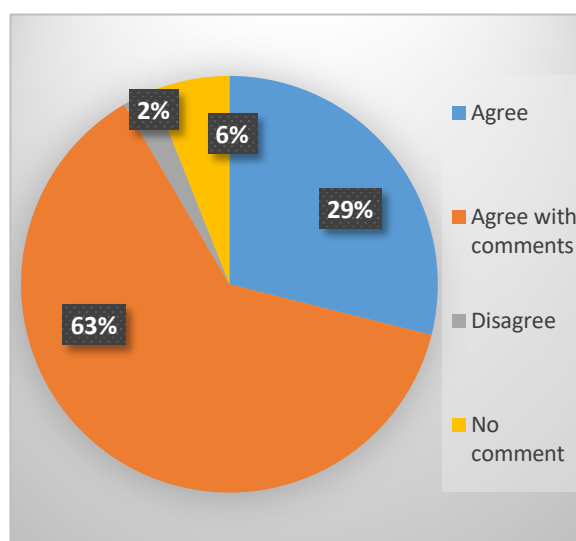
ISA 220 (Revised)

46. ED-600 also included new requirements and application material as a result of ISA 220 (Revised). These changes included new requirements related to:
- Leadership responsibilities for managing and achieving quality on a group audit.
 - Being able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
 - Relevant ethical requirements.
 - Engagement resources.
 - Engagement performance.
47. Question 7 in the EM asked respondents:

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?

What We Heard

48. Responses to Question 7 were as follows (see the separate NVivo reports for further details):
- 24 respondents agreed with the proposals, including a Monitoring Group member – 29%;
 - 52 respondents agreed with the proposals but had comments or concerns, including two Monitoring Group members – 63%;
 - 2 respondents did not agree with the proposals – 2%; and
 - 5 respondents did not have a specific response, including one Monitoring Group member – 6%.



Monitoring Group Members

49. One Monitoring Group member supported the material in ED-600 related to the acceptance and continuance without any comments or concerns.
50. Two Monitoring Group members supported the material in ED-600 related to acceptance and continuance and asked the Board to consider:
 - (a) Specifying in paragraph 13 of ED-600 that the group auditor should obtain an understanding of the relevant laws and regulations applying to the group that may impose restrictions on the ability of group auditor to receive information.
 - (b) In relation to paragraph A30 of ED-600, clarifying what the objective or purpose of the communications of the group auditor's firm with regulators, listing authorities or others is or how it helps overcome the concerns arising from the access to information or people.

Other Respondents

51. Respondents that agreed with the proposals indicated their support for the enhanced guidance, particularly the guidance to overcome access restrictions. Respondents also supported that the standard does not alleviate the group auditor from its responsibility to gather sufficient appropriate evidence when restrictions may exist.
52. Respondents that disagreed with the proposals or agreed with the proposals but had comments or concerns noted the matters as set out in paragraphs 53–60.

Structure

53. Respondents noted that the nature and extent of requirements in this section are confusing as they include requirements that are not included as part of acceptance and continuance procedures in ISA 220 (Revised). Specifically, it was noted that the requirements that address relevant ethical requirements, engagement resources and engagement performance should not be included within this section and that the table of contents and heading structure of ED-600 should be revised accordingly.

Restrictions to Access People and Information

Restrictions related to non-controlled interests

54. Respondent comments on the application material in ED-600 addressing restrictions to access people and information mostly related to the guidance on restrictions to non-controlled interests. Respondents asked the IAASB to:
 - (a) Clarify paragraph A29 of ED-600, which provides guidance when the group has a non-controlled interest in an entity that is accounted for by the equity method. With respect to this paragraph respondents noted that:
 - ED-600 is not clear whether obtaining publicly available information itself is sufficient. Similarly, it was noted that discussing with group management's representatives who are on the executive board or are members of those charged with governance of the non-controlled entity will not result in sufficient appropriate evidence. It was suggested clarifying that the group auditor needs to apply professional judgment to evaluate whether the suggested actions in paragraph A29 are adequate to offset the impact of lack of access. It was also noted that the group auditor's professional judgment is influenced by the associated risk of material misstatement and whether the available evidence provide sufficient appropriate audit evidence to reduce the

risk to an acceptably low level.

- Paragraph A29 seems to contradict paragraph 42 of ED-600. Paragraph 42 points out that if an audit has been performed on the financial statements of an entity or business unit that is part of the group, the group auditor can use such work as audit evidence for the group audit as long as the group auditor evaluates that the conditions for use as audit evidence as described in paragraph 42 (a)–(c) have been fulfilled. Respondents noted that paragraph A29 appears to suggest that for non-controlled entities such conditions do not need to be met.
- (b) Add additional guidance and examples as there are likely going to be continuing challenges arising from restricted access to information of equity-accounted components.

Encourage management to communicate with regulators

55. With respect to paragraph A30 of ED-600, dealing with communications on restrictions to the group auditor's firm and the group auditor's firm further communicating such matters, respondents noted that:
- (a) It is not clear what the objective or purpose of the communications of the group auditor's firm with regulators, listing authorities or others is or how it helps overcome the concerns arising from the access to information or people. Respondents suggested adding additional guidance to explain the purpose of this paragraph.
 - (b) The term 'others' is ambiguous and too broad. Respondents suggested clarifying the role and functions of 'others' for the group auditor firm's communication purposes.

Restrictions imposed by laws and regulations

56. Respondents suggested including additional guidance to assist auditors in dealing with components in jurisdictions where local regulations impose restrictions on non-residents. They also suggested including further guidance on how to overcome access restrictions to working papers imposed by laws and regulations.

Overcoming restrictions – information technology

57. Respondents noted that against the backdrop of the COVID-19 pandemic, the issue of restrictions to access to information became more apparent, particularly when audit documentation is not allowed to be shared outside the jurisdiction due to laws and regulations. As listed in paragraph A29 of ED-600, group auditors may overcome such restrictions by reviewing the component auditor's working papers remotely through the use of technology. It was noted that while these are workable alternatives, there are accompanying risks and challenges.

Component Auditor Confirmation to Cooperate with the Group Auditor

58. Paragraph 19 of ED-600, and related application material, require the group auditor to request the component auditor to confirm that the component auditor will cooperate with the group auditor. In that respect respondents suggested to:
- (a) Elevating paragraph A35 of ED-600, regarding requesting the component auditor to confirm that they will conduct their work as directed by the group auditor, to a requirement.
 - (b) Amending the requirement as it may not be possible to obtain such a confirmation at the acceptance and continuance stage if the component auditor has not been engaged yet.
 - (c) Strengthening paragraph 19 by requiring that the group auditor should be allowed to access

the component auditors' working papers unless there are valid reasons not to allow this, such as the legal requirements in a particular jurisdiction.

Relevant Ethical Requirements

59. Paragraph 20 of ED-600, and related application material, addresses relevant ethical requirements. In that respect respondents suggested to:
- (a) Aligning the wording in paragraph 20(a) with paragraph 17 of ISA 220 (Revised). Paragraph 17 of ISA 220 (Revised) states the 'engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable...'. It was noted that there is no reference to a 'determination' as required by paragraph 20(a) in ED-600.
 - (b) Relocating the requirement in paragraph 20(c) regarding obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement have been followed, to paragraph 44 of ED-600, which deals with communication by component auditors.
 - (c) Highlighting the importance of communicating timely if the component auditor is unable to comply with the relevant ethical requirements, or when there is a threat to independence during the performance of the component auditor's work.
 - (d) Updating the last sentence of paragraph A39 of ED-600 by not focusing on audit fees but rather focus on the IESBA Code requirements more holistically.

Engagement Resources

60. Paragraphs 21 and 22 of ED-600, and related application material, address engagement resources. In that respect respondents suggested to:
- (a) Clarifying the phrase 'including sufficient time to perform the assigned audit procedures at the component' in paragraph 21(a). It was noted that it is not clear what the group engagement partner is being required to perform, incremental to what is in ISQM ¹⁹ to determine that the component auditor has sufficient time to perform the assigned audit procedures at the component. Respondents acknowledged the sufficient time requirement in ED-600 is based on the requirement ISA 220 (Revised) but believe it could cause practical challenges in a group audit.
 - (b) Clarifying what is required of the auditor in circumstances when information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm (paragraph 21(b)). Specifically, it was noted that the phrase 'when information has been provided' could create confusion as to how much work effort is expected of the auditor in order to satisfy this requirement. Respondents also noted that paragraph 21(b) sets unrealistic expectations regarding the availability of information about the results of the monitoring and remediation process of a component auditor's firm, as well as about the extent of usefulness of such information to the evaluation of the competence and capabilities of the individuals assigned to the engagement team. Finally, respondents noted that this conditional requirement may have limited impact since component auditors may not be open to sharing the results of their monitoring and remediation process when they have significant issues. Respondents

⁹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

therefore suggested including the paragraph in the application material.

- (c) Adding a requirement that, when the results of external inspections with respect to the component auditor's firm are not provided, the group auditor should request a confirmation from the component auditor that there has not been a recent external inspection or that there were no significant findings or recommendations arising from such an inspection.
- (d) Clarifying what is meant by 'serious concern' in paragraph 22, which refers to the engagement partner having serious concerns about any of the matters in paragraphs 18–21 that deal with considerations when component auditors are involved, relevant ethical requirements and engagement resources. Respondents were of the view that this term was deemed subjective and open to interpretation, and therefore will result in disparity in practice. It was also noted that the interaction between paragraph 22 and paragraphs A42, A43 and A48 of ED-600 was not clear.
- (e) Removing the reference to paragraph 21 in paragraph 22 that requires the engagement partner to take further action if there are serious concerns, because paragraph 21 already deals with the impact of any concerns.
- (f) Revising paragraph 22 with respect to independence requirements to align with the IESBA Code. The wording of 'if a component auditor does not meet the independence requirements' suggests that when a breach is identified the component auditor will not be allowed to be involved in the group audit work, regardless of the breach and whether the component auditor is within a network firm or not.

Task Force Views and Recommendations

- 61. The Task Force noted that there are many requests for additional guidance, particularly in relation to restriction to access people or information. The Task Force recognized that in some areas this may be warranted but was also of the view that adding too much guidance may make the standard too long. In addressing respondents' comments the Task Force therefore focused on areas where more significant comments were received.

Monitoring Group Members

- 62. The Task Force made changes to paragraph A30 in **Agenda Item 4-C** in response to comments from Monitoring Group members. **Agenda Item 4-A** explains the changes. The Task Force did not change paragraph 13 as the Task Force was of the view that the application material sufficiently addresses the point raised.

Other Respondents

Structure

- 63. Given the introduction of the Overall Group Audit Strategy and Group Audit Plan section, paragraphs 18–23 in **Agenda Item 4-C** are now included under this section, addressing concerns from respondents.

Restrictions to Access People and Information

- 64. The Task Force made changes to paragraphs A29, A29A and A30 in **Agenda Item 4-C** in response to comments from respondents. **Agenda Item 4-A** explains the changes.

Component Auditor Confirmation to Cooperate with the Group Auditor

65. The Task Force made changes to paragraphs 19, A35 and A35A in **Agenda Item 4-C** in response to comments from respondents. **Agenda Item 4-A** explains the changes.

Relevant Ethical Requirements

66. The Task Force made changes to paragraphs 20, A39 and A39A in **Agenda Item 4-C** in response to comments from respondents. **Agenda Item 4-A** explains the changes.

Engagement Resources

67. The Task Force made changes to paragraphs 22, A46A, A47 and A48 in **Agenda Item 4-C** in response to comments from respondents. **Agenda Item 4-A** explains the changes.

Section V – Risk-Based Approach: Practical Challenges (Question 8(c))

68. Given that the risk-based approach was introduced in ED-600, the IAASB included a question whether there were practical challenges related to the Board's proposals. The question was as follows:

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 auditor and component auditors are clear and appropriate?*
 - b. *Whether the interactions between the group auditor 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 auditor?*
 - c. *What practical challenges may arise in implementing the risk-based approach?*

69. The responses to Question 8, 8(a) and 8(b) were discussed with the Board in December 2020.

What We Heard

Monitoring Group Members

70. Monitoring Group members noted the following practical challenges:

- (a) Testing approaches. One Monitoring Group member noted that there is limited guidance to determine when the testing approaches as set out in paragraph A97 of ED-600 would apply and therefore suggested additional guidance to better support the group auditor's decision when to use which testing approach.
- (b) Insufficient understanding components. Even though supportive of the risk-based approach, one Monitoring Group member highlighted several factors that may make the application of the risk-based approach more challenging in practice. The Monitoring Group member noted that:
 - The complexity of many groups can make it hard to gain a comprehensive understanding of a group.
 - The diversity of groups, in particular across jurisdictions with their own legal and regulatory systems, and subject to local market and economic conditions, may result in it being unlikely that the group auditor will be able to fully understand all

environmental risks in a group.

- Where a risk of material misstatement is spread across a number of jurisdictions, no one component auditor may be suited to undertake all the procedures which will put pressure on the group auditor to identify, assess and respond to the risks of material misstatements.
- (c) Fraud risk assessment procedures. A Monitoring Group member was of the view that fraud risk assessment procedures at the component level should be strengthened. It was noted that the risk-based approach may cause the group auditor to miss risks of material misstatement (particularly in areas such as non-compliance with laws and regulations and potential fraud risks) without sufficient independent input from component auditors. It was noted that paragraph A80 of ED-600 provides guidance on information used to identify the risks of material misstatement of the group financial statements due to fraud, but the Monitoring Group member was of the view that there is little emphasis on developing procedures at the component level to inform the group auditor's overall fraud assessment.
- (d) Shared service centers. One Monitoring Group member was of the view that shared service centers should be viewed and assessed separately from business components in planning the group audit as the volume of transactions and the services provided can often be above and beyond traditional components. That Monitoring Group member also noted that where management uses a complex structure to operate the business, the group auditor should factor this level of complexity into its planning. The entity structure should be specifically addressed by the Board as it finalizes the standard.

Other Respondents

71. The comments from respondents that identified practical challenges related to the risk-based approach noted the matters as set out in paragraphs 72–90.

Involvement of Component Auditors

72. Respondents to Question 8(c) highlighted the importance of involving component auditors. Some of the messages received were similar to what was communicated to the Board as part of the analysis of Question 8 and 8(a) (see Section III of Agenda Item 4 for the December 2020 meeting).
73. Respondents suggested:
- (a) Clarifying the importance of involving component auditors throughout the different phases of the group audit, particularly in the risk assessment.
 - (b) Including guidance on how to address practical difficulties related to the involvement of component auditors, including:
 - Differences in audit and quality control methodologies;
 - Challenges in assessing the component auditor's independence and ethical compliance;
 - Challenges in how the group may approach the coordination with component auditors because of potential different cultural, language and access barriers.
 - (c) Enhancing the introduction of the standard to illustrate when the involvement of component auditors is likely to be a key, recognizing that component auditors can be, and often are, involved in all phases of a group audit engagement.

Using Audit Evidence from an Audit Performed for Another Purpose

74. The wording of paragraph 42 of ED-600 suggests that it applies only when an audit has been performed for statutory, regulatory or other reasons on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued. Respondents noted that, as written, the paragraph was too limiting and did not fully address a number of relevant issues, including:
- (a) The audit for another purpose and the group are often performed concurrently;
 - (b) The audit evidence obtained from an audit performed for another purpose can be critical to a group audit;
 - (c) Not using the work of the audit for another purpose, will result in the duplication of procedures. This, in turn, increases the overall cost of the audit for the group and its subsidiaries without an associated improvement in quality, which is not in the public interest. It was also noted that moving to the risk-based approach, where more work is planned and performed by the group auditor, could potentially lead to duplicate work and quality issues in the statutory audits at the component level; and
 - (d) There needs to be more guidance on when it may be appropriate to use such audit evidence and how the group auditor may use this audit evidence in responding to risks of material misstatement in the group financial statements.
75. Respondents recommended that this topic be addressed more comprehensively (for example, by including a framework) to guide practitioners about the use of audit evidence obtained from an audit performed for another purpose. A framework would help to make clear the circumstances in which the use of such audit evidence is appropriate, including the benefits that may arise in coordinating the work effort between the group auditor and component auditors.
76. It was noted that some of the key factors that may be considered in developing such a framework include:
- (a) The expected level of cooperation from the other auditor; for example, whether the other auditor is responsive to communications from the group auditor or whether the other auditor agrees to be engaged in the role of a component auditor;
 - (b) Whether the other audit, such as a statutory audit, is completed or underway, which would impact the ability of the group auditor to direct or be involved in the audit;
 - (c) The ability of the group auditor to hold discussions with the other auditor and the ability, when necessary, to review the other auditor's audit working papers or obtain a summary memo regarding the audit procedures performed;
 - (d) The ability of the group auditor to assess the competence and capabilities of the other auditor, and their compliance with relevant ethical requirements, including those related to independence; and
 - (e) How the risks identified for the component impact the use of the audit evidence from the other audit.
77. Respondent noted that paragraph 42 of ED-600 and the related application material may be viewed as directly undermining the intended objectives of the revised requirements for the group auditor to take responsibility for the identification and assessment of risks, and the design of further audit procedures. As drafted, this appears to allow a group auditor to use the statutory audits of components as providing the evidence needed over that component's financial information without the involvement in the risk assessment and design of responses that the changes were designed to achieve.

78. Respondents also suggested several enhancements to paragraph 42 of ED-600 and the related application material, including:
- (a) Clarifying the distinction between work performed by the component auditor for the purposes of the audit of the group financial statements and work performed to support the auditor's report for another purpose (e.g., a statutory audit of an entity within the group) as this important distinction is not well understood.
 - (b) Clarifying that the group auditor should evaluate the relevance of the work performed for another audit for group audit purposes.
 - (c) Clarifying that the group auditor should also evaluate the threshold for misstatements, including the consideration of whether the actual audit misstatements for such an audit are clearly trivial for the purposes of a group audit.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

79. Respondents asked the IAASB to clarify the evaluation whether sufficient appropriate audit evidence has been obtained (paragraph 49 of ED-600). In that regard many of the comments related to the relationship between ISA 330¹⁰ paragraph 18 and ED-600.
80. Paragraph 18 of ISA 330 states that:
- Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.*
81. Respondents asked for more guidance on the application of ISA 330 paragraph 18 in a group audit, especially related to untested residual balances. In extant ISA 600, the residual population is subject to analytical procedures at the group level. It was noted that ED-600 is silent on this and respondents suggested to clarify this point.

Differentiating Between Network and Non-Network Firms

82. For various reasons respondents highlighted that the risk-based approach may create competitive disadvantages for non-network firms. It was noted that:
- (a) In circumstances where the group auditor is using a firm from outside its network, the new risk-based approach makes it increasingly more difficult to perform an effective and efficient audit due to:
 - Differences between the audit methodologies of the respective firms;
 - The highly iterative nature of performance of procedures; and
 - The level of granularity required for risk assessment in ISA 315 (Revised 2019) and ISA 540 (Revised) and the granular responses to risks required in ISA 540 (Revised) will exacerbate the impracticality of the detailed risk-based approach

A potential consequence of this will be that group audit engagement will increasingly be performed only by the larger firms and such a concentration of the market is not in the public interest.
 - (b) Less reliance may be placed on non-network component auditors due to the increased responsibilities placed on the group auditor. This may be because there are fewer perceived obstacles in complying with ISA 220 (Revised) if the component auditor is from the same firm as the group auditor.

¹⁰ ISA 330, *The Auditor's Responses to Assessed Risks*

Testing Approaches

83. Respondents noted that there is limited guidance to determine when the testing approaches as set out in paragraph A97 of ED-600 would apply and therefore suggested additional guidance to better support the group auditor's decision when to use which testing approach. It was also noted that the limited guidance could have the unintended consequences of the group auditor defaulting to assigning work to component auditors using the prescriptive mechanisms as included in extant ISA 600 as the approaches are similar. One respondent therefore suggested to delete paragraph A97.
84. Respondents were also of the view that the meaning of the testing approach 'Design and perform further audit procedures on the entire financial information of the component' is not sufficiently clear. For example, it was noted that it is unclear whether ISA 600 expects the component auditor to obtain reasonable assurance that the component financial information to be included in the group accounts is free from material misstatement. It was therefore recommended to clarify whether this approach is meant to be a full-scope reasonable assurance engagement.
85. A respondent was concerned about the perceived de-emphasis of an audit of component financial information. The respondent was of the view that an audit is often an optimal solution from an audit quality perspective because an audit is a clearly defined and understood engagement type which provides a robust framework for a component auditor's responsibilities with respect to the work to be performed on a component at the direction of the group auditor, including communication with the group auditor. It was therefore suggested to expand the application material to clearly explain the reasons as to why it may be appropriate, from an audit quality perspective, to perform an audit over component financial information in certain scenarios and why, in such circumstances, it may pose a risk to audit quality when a component auditor is not appropriately involved.

Large Number of Individually Insignificant Components

86. Respondents noted that when there are a large number of individually insignificant components in a group that may be financially significant to the group in the aggregate, there are specific challenges in determining the audit scoping strategy. It was suggested to include additional guidance to clarify how a risk of material misstatement relevant to multiple business units or entities across the group may be addressed. It was noted that although paragraph A89 of ED-600 discusses this issue, further guidance would be useful for the group auditor to determine the sufficiency of the procedures performed centrally, or by the component auditors.
87. When there are a large number of individually insignificant components, respondents asked the Board to clarify whether a sampling approach could be applied when a risk of material misstatement relevant to multiple business units or entities across the group has been identified to components provided that the conditions required by ISA 530¹¹ are met at the level of the components.
88. Other respondents were of the view that statistical sampling principles can be applied to achieve additional comfort when selecting non-significant components for which audit procedures will be performed and suggested to include guidance to recognize the potential for sampling (and the provisions of ISA 530) to be employed in terms of scoping-in smaller non-significant components in order to manage audit risk.

Insufficient Understanding of Components

89. Respondents noted that the risk-based approach may be hard to apply in geographically dispersed groups. When groups are geographically dispersed across jurisdictions with their own legal and regulatory systems, and subject to local market and economic conditions, it will be hard for the

¹¹ ISA 530, *Audit Sampling*

group auditor to be able to fully understand all environmental risks in a group. It was noted that this is particularly the case for certain sectors (e.g., banking) that are subject to extensive and detailed regulations.

Fraud Risk Assessment Procedures

90. Respondents were of the view that the fraud risk assessment procedures at the component level should be strengthened. It was noted that the risk-based approach may cause the group auditor to miss key risks affecting the group but originating in a component (particularly in areas such as non-compliance with laws and regulations, ability to identify potential fraud risks) without sufficient independent input from component auditors. Paragraph A80 of ED-600 provides guidance on information used to identify the risks of material misstatement of the group financial statements due to fraud, but respondents were of the view that there is little emphasis on developing procedures at the component level to inform the group auditor's overall fraud assessment.

Task Force Views and Recommendations¹²

Involvement of Component Auditors

91. Given the comments in relation to Question 8, 8(a) and 8(b) of ED-600, the Task Force made significant changes to address concerns from respondents who are of the view that ED-600 underplayed the important role that component auditors play in a group audit. With respect to the comments made by respondents in relation to Question 8(c) the Task Force is of the view that clarifying the importance of involving component auditors throughout the different phases of the group audit, particularly in the risk assessment, has been addressed by previous changes to the standard.
92. With respect to the respondents' comments on highlighting the important role that component auditors play in a group audit, the Task Force is of the view that the Introduction section of proposed ISA 600 (Revised) has been sufficiently enhanced and that the changes to the Communication section ensure robust timely two-way communication about risk between the group auditor and component auditors.

Using Audit Evidence from an Audit Performed for Another Purpose

93. See **Agenda Item 4**, Section II-A for the Task Force's views and recommendations on using audit evidence from an audit performed for another purpose.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

94. The Task Force is of the view that ISA 330, paragraph 18 applies at the group financial statement level and therefore the stand back in paragraph 49 of **Agenda Item 4-C** would take into account whether there may be a need for additional procedures on a material class of transaction, account balance or disclosure in the group financial statements. Hence, the Task Force is of the view that proposed ISA 600 (Revised) appropriately addresses ISA 330 paragraph 18 and that no further changes are needed.

Differentiating Between Network and Non-Network Firms

95. In developing ED-600 it has never been the Task Force intent to differentiate between network and non-network firms and the Task Force is of the view that such a perceived differentiation should be addressed, where reasonably possible.

¹² The comments from Monitoring Group members have been taken into account in the Task Force's views and recommendations as set out in this section.

96. Based on respondents' comments, the Task Force noted that some of the perceived differentiation is caused by other standards, such as ISA 220 (Revised). The Board has indicated before (in the discussion on the definition of engagement team) that opening up the Quality Management standards¹³ is not an option given the recent approval. Staff also notes that some of respondents' concerns related to the risk-based approach. As the risk-based approach addresses some fundamental issues related to extant ISA 600 and the iterative nature of the risk-based approach is needed to address these fundamental issues, the Task Force is of the view that making changes to the key aspects of the risk-based approach is also not an option. Also, the risk-based approach was widely supported by respondents to ED-600.

Testing Approaches

97. Given the comments received in relation to Question 8, 8(a) and 8(b) of ED-600, the Task Force has made several changes to the paragraphs related to the testing approaches (paragraphs A90A–A90E of **Agenda Item 4-C**). The Task Force clarified when each of the approaches could be used and has re-organized the paragraphs. The Task Force also discussed changing the names of the approaches but decided not to do so given the unintended consequences and the limited number of respondents who were concerned about it.

Large Number of Individually Insignificant Components

98. The Task Force made changes to paragraphs A89 and A89A in **Agenda Item 4-C** in response to comments from respondents. **Agenda Item 4-A** explains the changes.

Insufficient Understanding of Components

99. Given the comments in relation to Question 8, 8(a) and 8(b) of ED-600, the Task Force has made changes to proposed ISA 600 (Revised) to address concerns from respondents on this matter. The changes made to highlight the importance of involving component auditors, will address the concerns by respondents to Question 8(c) of ED-600. Therefore, the Task Force did not make further changes to the standard based on these comments.

Fraud Risk Assessment Procedures

100. The Task Force noted that respondents also referred to fraud related matters in their response to Question 1 (linkages with other standards), and Question 12 (other matters). In response to comments on those questions some changes have already been made to the standard (see for example paragraphs 126–130 of this agenda item). The Task Force will consider whether further changes are needed to address fraud in proposed ISA 600 (Revised).

Section VI – Commonality of Controls and Centralized Activities (Question 9)

101. Extant ISA 600 includes the concept of group-wide controls, which were defined as: '*Controls designed, implemented and maintained by group management over group financial reporting.*' Through information obtained through the [Invitation to Comment](#) and outreach, the IAASB noted that some auditors interpret the definition as being:
- Controls over group financial reporting, including consolidation; or
 - Controls over processes that are the same across the group or a part of the group (e.g., controls that are intended to operate in a common manner across multiple entities or business units).

¹³ The Quality Management Standards consist of ISQM 1, ISQM 2, *Engagement Quality Reviews*, and ISA 220 (Revised)

The IAASB also noted the role that group-wide controls play in responding to assessed risks of material misstatement and noted that auditors sometimes place undue reliance on these controls.

102. Given the matters noted above, the IAASB decided not to refer to group-wide controls in ED-600 and to address controls in a group audit more broadly. Even though ED-600 did not include the concept of group-wide controls, much of the related application material in extant ISA 600 has been retained. In addition, the IAASB included application material on the following special considerations:

- Commonality of controls (controls designed by group management that are intended to operate in a common manner across multiple entities or business units); and
- Centralized activities relevant to financial reporting (activities that process information or perform other activities for multiples entities or business units within the group).

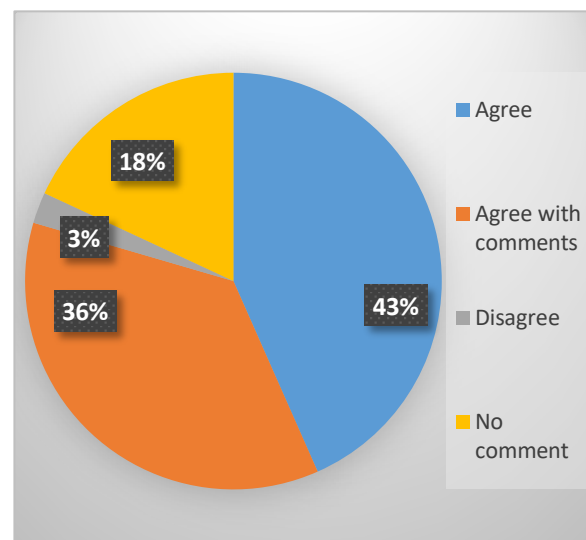
103. Question 9 in the EM asked respondents:

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

What We Heard

104. Responses to Question 9 were as follows (see the separate NVivo reports for further details):

- 36 respondents agreed with the proposals, including a Monitoring Group member – 43%;
- 30 respondents agreed with the proposals but had comments or concerns, including a Monitoring Group member – 36%;
- 2 respondents did not agree with the proposals – 3%; and
- 15 respondents did not have a specific response, including two Monitoring Group members – 18%.



Monitoring Group

105. One Monitoring Group member supported the material in ED-600 related to common controls and centralized activities without any comments or concerns and two Monitoring Group members did not comment on this question.

106. One Monitoring Group member supported the material in ED-600 related to common controls and centralized activities and asked the Board to consider:

- (a) Expanding the appendix (Appendix 3) that includes examples of controls that may be helpful in obtaining an understanding of the group's system of internal control in a group environment to include:
- An explanation that the group auditor's understanding of the system of internal control over financial reporting may include considering the extent to which controls across the group are consistent and fully integrated at the group and component level and of the implications for the planned audit approach.

- Examples of control deficiencies that would be indicators of significant deficiencies at both the group and component levels.
 - The effects of an ineffective system of internal control over financial reporting on the audit of group financial statements.
- (b) Expanding upon the reason for identifying common controls and the relevance to the audit of group financial statements.

Other Respondents

107. Respondents that agreed with the proposals indicated their support for the addition of the application material related to the commonality of controls and centralized activities noting that the application material is clear and appropriate. These respondents also noted that the application material may aid auditors in what can be a difficult audit area, particularly in a multi-component environment.
108. Respondents that disagreed with the proposals or agreed with the proposals but had comments or concerns noted the matters as set out in paragraphs 109–112.

Additional Application Material

109. In addition to the application material already included in the ED-600, respondents identified several areas where additional application material or examples would be useful, including:
- (a) Clarifying the work effort on common controls and centralized activities and addressing practical challenges. For example, clarifying:
 - Who tests the common controls and centralized activities;
 - The work effort needed;
 - When reliance can be placed on common controls and centralized activities.
 - For centralized activities, what the population for substantive testing is and how to apply component materiality to test this population.
 - (b) Adding examples to further explain the difference between the concepts of commonality of controls and centralized activities.
 - (c) Explaining how controls at the group level may be applied across the group.

Shared Service Centers, Interaction Between the Group Auditor and Component Auditor

110. Respondents noted that work performed in a shared service center may not only support the audit of the group financial statements but also audit engagements that are required for entities within a group for statutory, regulatory or other reasons. It was suggested that further guidance could be developed to:
- (a) Set out how such work is coordinated and the conditions under which audit evidence can be shared.
 - (b) Explain the extent to which a component auditor may use the work performed in relation to common controls for the group audit and the substantive audit procedures performed by the group auditor in forming an audit opinion on the component's financial statements.
111. Additionally, it was noted that the standard does not include a clear expectation for the group auditor to communicate the results of internal control procedures, including related to common controls, that could impact the component auditors' design and performance of audit procedures for purposes of the group audit. It was noted that failure to do so could result in insufficient procedures performed to

address the risks of material misstatement. Therefore, respondents suggested including a requirement to communicate the results of internal control procedures performed on relevant common controls to the impacted component auditors by both the group auditor and other component auditors.

Linkage with ISA 315 (Revised 2019) and ISA 330

112. In addition to the responses to Question 1 of ED-600, respondents suggested enhancing the linkages with ISA 315 (Revised 2019) and ISA 330 in relation to common controls and centralized activities specifically. In that regard, it was noted that it is unclear to what extent a group auditor is expected to develop an understanding of components, including in respect of controls, both direct and indirect, that are developed on a common basis across the group.

Task Force Views and Recommendations¹⁴

113. The Task Force noted the strong support for the proposals related to common controls and centralized activities in ED-600 and is of the view that no significant changes to these concepts are needed.
114. As noted in the Task Force's Views and Recommendations in Section IV of this agenda item, the Task Force is of the view that there is a limit of how much can be addressed through application material. The concepts of common controls and centralized activities need to be clear and understandable, but educational material should not be included in the standard.
115. The Task Force made changes to paragraphs A60, A62, A63 and A65A in **Agenda Item 4-C** in response to comments from the Monitoring Group and other respondents. **Agenda Item 4-A** explains the changes. The comments related to Appendix 3 will be addressed after the June 2021 meeting.
116. An area that may be addressed through implementation material relates to interaction between the group auditor and component auditor for work performed in a shared service center that support audit engagements that are required for statutory, regulatory or other reason. Staff is of the view that all matters that directly relate to the group audits should be included in the standard while other matters may be dealt with outside the standard.

Section VII – Other Matters (Question 12)

117. Question 12 in the EM asked respondents:

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

118. In many cases, respondents provided a specific response to Question 12. However, comments sometimes related to another question in the EM and therefore were analyzed in that context. For example, some responses to Question 12 related to the risk-based approach, often to provide different perspectives on the responses to Question 8 in the EM, or to offer additional suggestions for clarifying the application material. Accordingly, the Task Force considered those comments in making its revisions to the risk-based approach sections of proposed ISA 600 (Revised).
119. Based on the analysis of the other matters, the Task Force identified several themes that are set out in paragraphs 120–155 below. Comments from Monitoring Group members relating to these themes are summarized separately.

¹⁴ The comments from Monitoring Group members have been taken into account in the Task Force's views and recommendations as set out in this section.

Need for Additional Implementation Guidance

What We Heard

Monitoring Group

120. Monitoring Group members had the following comments related to implementation guidance:

- (a) Because experts often may be involved in group audits, particularly in certain industries, additional guidance should be included on how ISA 620¹⁵ should be considered in group audits.
- (b) The IAASB should consider how to address instances that may arise in the first year of implementation where group auditors rely on policies or procedures at a network firm that have been implemented but not yet evaluated in accordance with the requirements of ISQM 1.

Other Respondents

121. Respondents commented generally on the need for additional implementation guidance and implementation support materials to support effective implementation and consistent application of the requirements. Respondents also noted the need for an appropriate balance between guidance in the standard and non-authoritative guidance provided outside of the standard. It was further noted that, although the development of such guidance is not the primary responsibility of the IAASB, the Board can play an important role, perhaps by engaging with IFAC and national standard-setters.

122. Numerous specific topics were mentioned by respondents as possible candidates for implementation support guidance, including the following:

- (a) Application of the requirements of ISA 315 (Revised 2019) to group audits;
- (b) Scoping a group audit under the risk-based approach in ED-600 for groups of varying sizes and structures;
- (c) Addressing practical challenges when the group holds a non-controlling interest in another entity accounted for by the equity method, or for joint ventures;
- (d) Examples of communications between the group auditor and component auditor; and
- (e) Use of shared service centers.

Task Force Views and Recommendations

123. The Task Force will consider potential topics for implementation support guidance after proposed ISA 600 (Revised) is finalized. In its continuing deliberations, the Task Force will also further consider the balance between guidance in the standard and non-authoritative guidance that can be provided outside of the standard.

¹⁵ ISA 620, *Using the Work of an Auditor's Expert*

Guidance on Consideration of Fraud Risks, Particularly with Respect to the Consolidation Process

What We Heard

Monitoring Group

124. A Monitoring Group member supported the number of references to ISA 240¹⁶ in ED-600.
125. A Monitoring Group member indicated that the application material in paragraph A72 of ED-600 regarding related parties could helpfully identify that certain sectors (e.g., banking) may be particularly susceptible to the risks highlighted.

Other Respondents

126. Respondents noted that fraud can be perpetrated via the consolidation process, including through consolidation adjustments, and suggested providing additional guidance. One respondent suggested elevating to a requirement the guidance in paragraph A80 of ED-600 to consider whether there are particular components for which the risks of material misstatement due to fraud are higher.
127. A respondent expressed a view that auditors must be encouraged to do more with regard to fraud risk identification in a group audit through conducting the overall risk assessment (as required by ISA 315 (Revised 2019)) and the fraud risk assessment (as required by ISA 240) in an integrated manner.

Task Force Views and Recommendations

128. The Task Force noted that the risks of material misstatement due to fraud described in paragraph A72 in **Agenda Item 4-C** are relevant for entities in all sectors, and therefore has not proposed any further revisions to this paragraph.
129. The Task Force agreed with respondents that fraud can be perpetrated through the consolidation process. Accordingly, the Task Force added paragraph 34(c) in **Agenda Item 4-C** to require the group auditor to evaluate whether any fraud risk factors, or indicators of possible management bias, exist with respect to the consolidation process. The Task Force will further consider whether additional application material might be useful to support this requirement.
130. With respect to the integration of the overall risk assessment and the fraud risk assessment, the Task Force discussed that ISA 240 expands on how ISA 315 (Revised 2019) and ISA 330 are to be applied in relation to risks of material misstatement due to fraud. Several requirements in ISA 240 are directly linked to the risk assessment procedures and the identification and assessment of the risks of material misstatement due to fraud. The Fraud Working Group is considering how the enhanced requirements for a more robust risk identification and assessment introduced in ISA 315 (Revised 2019) can be incorporated in ISA 240.

¹⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Communication with Group Management and Those Charged with Governance of the Group

What We Heard

131. Respondents commented that the wording in paragraph 53 of ED-600 implies a level of optionality in the deficiencies in internal control to be communicated to those charged with governance and management, while ISA 265¹⁷ specifies the types of deficiencies to be communicated and to whom they are communicated. In addition, it was noted that paragraph 53 is not clear whether the group auditor or component auditor is responsible for determining whether deficiencies in internal control identified at the component level are significant deficiencies.
132. Respondents expressed concerns about paragraph 56(b) of ED-600. It was noted that if areas of concern are identified by the group auditor about the quality of a component auditor's work, such concerns would necessarily need to be mitigated in order for the group engagement partner to comply with the requirements of ISA 220 (Revised). Accordingly, respondents suggested that this requirement be deleted or moved to application material.

Task Force Views and Recommendations

133. **Agenda Item 4-A** explains the revisions made by the Task Force to paragraphs 53–56A in **Agenda Item 4-C** respond to the comments received relating to communications with group management and those charged with governance of the group.
134. The Task Force concluded that no change should be made to paragraph 56(b) in **Agenda Item 4-C**. The Task Force noted that this communication is required by extant ISA 600 and is a critical part of the responsibilities of those charged with governance. Therefore, even if the group engagement partner concluded that the concerns had been mitigated, communication with those responsible for the oversight of the audit would be useful and in the interests of transparency.

Auditor's Report

What We Heard

135. Paragraph 52 and related application material paragraphs A117–A118 of ED-600 included the requirements and guidance related to the auditor's report for a group audit. Comments received on these paragraphs included the following:
- (a) The wording in paragraph 52 that the auditor's report 'shall not refer to a component auditor, unless required by laws or regulations' is too limiting or inconsistent with the wording in paragraph A118.
 - (b) The prohibition in paragraph 52 on referring to a component auditor seems at odds with the increased transparency reflected in recent changes to the auditor reporting landscape, and with recent academic research indicating that users of group financial statements are interested to know about whether component auditors were involved in the group audit and how their involvement is managed.
 - (c) 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.

¹⁷ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Task Force Views and Recommendations

136. **Agenda Item 4-A** explains the revisions made by the Task Force to respond to the comments received relating to the inconsistency between paragraph 52 and paragraph A118 of **Agenda Item 4-C**.
137. With respect to transparency about the involvement of component auditors, the Task Force noted that the IAASB discussed this matter in connection with the issuance of the auditor reporting standards in January 2015. The Board concluded at that time that it would be inappropriate to disclose such information in the auditor's report because it would contradict the requirements and principles in extant ISA 600.
138. In its discussions on ED-600, the IAASB reaffirmed the sole responsibility principle in extant ISA 600. Accordingly, paragraph 52 in **Agenda Item 4-C** retains the wording from paragraph 11 of extant ISA 600 prohibiting reference to a component auditor in the auditor's report on the group financial statements, unless required by law or regulation.

The Use of Automated Tools and Techniques

What We Heard

139. Respondents encouraged an increased focus on automated tools and techniques in ED-600. For example, in a group audit, and particularly during the risk assessment procedures, performing analytics using automated tools and techniques may allow the group auditor to improve its identification of the risks of material misstatement and group scoping. In addition, when a risk of material misstatement exists at many components that are individually financially insignificant, performing audit procedures centrally using automated tools and techniques may enable the auditor to obtain evidence needed to conclude on the group financial statements.

Task Force Views and Recommendations

140. The Task Force added a reference to automated tools and techniques in paragraph A89 in **Agenda Item 4-C** to supplement references elsewhere in proposed ISA 600 (Revised). The Task Force will coordinate with the Technology Working Group to obtain input on ways to further highlight the use of automated tools and techniques in a group audit.

Reference to 'Letterbox Audits' and Joint Audits

Monitoring Group

141. A Monitoring Group respondent indicated that ED-600 did not fully convey or discuss in sufficient detail the unique challenges that can exist when the engagement partner is not located in the jurisdiction where the majority of the audit work is performed (referred to by some as 'letterbox audits'). This respondent suggested that it was not clear whether ED-600 applies to such audits.
142. A Monitoring Group respondent noted that the IAASB may wish to consider providing further guidance on issues that may create additional challenges in a group context, such as joint audits.

Other Respondents

143. With respect to letterbox audits:
- (a) One respondent suggested that the IAASB clearly state within the scope section of ED-600 that the standard does not have specific requirements for letterbox audits. Instead, ISA 220 (Revised) should apply as it has the appropriate principles for adequate supervision and review by the engagement partner.

- (b) Respondents suggested that additional guidance was needed for letterbox audits, including that the IAASB should update the Staff Practice Alert on this topic issued in August 2015.
144. Respondents suggested that a reference to joint audits be included in proposed ISA 600 (Revised) similar to extant ISA 600.

Task Force Views and Recommendations

145. With respect to letterbox audits, the Task Force reaffirmed its previous conclusion that that ISA 220 (Revised) would apply in these situations. The Task Force agreed that updating the Staff Practice Alert on this topic would be helpful, subject to the availability of Staff resources and other IAASB projects and priorities.
146. With respect to joint audits, the Task Force discussed that it would be helpful to include wording in proposed ISA 600 (Revised) consistent with the wording in the proposed conforming amendment to ISA 220 (Revised). Accordingly, paragraph A15A has been added as application material to the definition of group engagement partner in paragraph 9(j) in **Agenda Item 4-C**.

Placement in the '600 Series' of the ISAs

What We Heard

147. Respondents noted that the ISAs in the 600 series address using the work of others, as indicated in the contents section of Part I of the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements. Respondents further noted that ED-600 goes beyond using the work of others (e.g., component auditors) by clarifying and enhancing the role and responsibilities of a group engagement partner and the group auditor, particularly their involvement throughout the group audit. As a special considerations standard, the requirements and guidance in ED-600 refer to, or expand on, the application of other relevant ISAs to a group audit. Accordingly, respondents suggested that placement in the 600 series may need to be reconsidered.

Task Force Views and Recommendations

148. The Task Force will discuss the placement of proposed ISA 600 (Revised) with senior Staff and will update the Board on the results of those discussions at a later time. However, the Task Force's initial view is that placement in the 600 series continues to be appropriate.

Liaison and Coordination with Other Standard-Setters, Including IESBA

What We Heard

149. Respondents noted the importance of close coordination with the IESBA with respect to group audits, in particular regarding:
- (a) The implications of the changes to the definition of engagement team in ISA 220 (Revised);
 - (b) Circumstances in which there is an inadvertent breach of the independence requirements by a component auditor;
 - (c) Challenges relating to the revised definition of a component in ED-600 (e.g., when identifying applicable entities or business units when obtaining an independence confirmation from component auditors); and
 - (d) Coordination of the effective dates of ED-600 and any related revisions to the IESBA Code.

150. Respondents recommended that the IAASB continue to liaise with the task forces and working groups for other IAASB projects on topics of relevance to group audits, such as fraud and going concern.
151. Respondents encouraged the IAASB to monitor the ongoing project of the United States Public Company Accounting Oversight Board (PCAOB) regarding the supervision of audits involving other auditors, and coordinate with the PCAOB to help ensure broad consistency in the principles and approach to the conduct of group audit engagements globally.

Task Force Views and Recommendations

152. The Task Force holds periodic meetings with the IESBA Group Audits Task Force, including most recently in May 2021. As part of those discussions, the points noted in paragraph 149 (a)–(c) above have been discussed, among other topics. The two task forces have not yet discussed alignment of effective dates but will do so at a future meeting.
153. The Task Force has liaised with the Chair and Staff of the LCE Task Force regarding the interaction of the LCE standard and proposed ISA 600 (Revised). The Task Force will monitor developments regarding the LCE standard and will continue to liaise with the LCE Task Force as needed.
154. The Task Force also continues to monitor the progress of the IAASB's projects on fraud and going concern, and will further consider revisions to proposed ISA 600 (Revised) to address those topics. The Task Force also will coordinate as needed with the Audit Evidence Task Force and the Technology Working Group.
155. A discussion with PCAOB staff is scheduled for June 2021 to provide an update on the status of proposed ISA 600 (Revised) and the PCAOB's project on the supervision of audits involving other auditors.

Appendix

Approach to Analyzing Comments

1. NVivo was used to assist with the analysis of comments. The NVivo summaries reflect:
 - The number of respondents who 'agreed', 'agreed with comments or concerns', or 'disagreed' with the question. It is noted that respondents classified as 'agreed with comments or concerns' were those who appeared to agree but had additional concerns or suggestions. Respondents who 'agreed' and provided further explanations of why they agreed were classified as 'agreed'.
 - The general themes identified from further analyzing the comments for those respondents who 'agreed with comments or concerns' or 'disagreed'. In many cases, the additional comments or concerns by respondents who agreed were similar to the reasons provided by respondents who disagreed with the question, i.e., they had similar issues and concerns whether they agreed or disagreed. The general themes have therefore been numbered consistently across the three categories to reflect these similarities or have been captured under the 'agreed with comments or concern' category. The general themes are intended to provide an overview of key themes, and do not reflect the nuances of the individual comments. Furthermore, the general themes do not reflect one-off comments or suggestions, which have nevertheless been considered by the Task Force.
2. The following points are also important for noting as part of the NVivo analysis:
 - In certain cases, respondents' comments on a particular question were considered more relevant to another question or another aspect of ED-600. Therefore, these comments were re-assigned to the more relevant question or aspect, so that they can be considered in the context of all other relevant comments. Furthermore, some respondents provided general comments, which were also assigned to the most relevant questions or aspects. In some cases, a comment may have been assigned to multiple areas given the relevance to multiple issues.
 - The general themes identified from further analyzing the comments only include respondents who had additional commentary. Furthermore, a respondent may have had multiple additional comments, which have been assigned to each relevant theme. As a result, the total number of respondents across all of the themes does not correlate to the total number of respondents who answered the question.