

Supplement A.3 to Agenda Item 4

Question 5 – Do you believe the proposed standard is scalable to groups of different sizes and complexities?

Question 5

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

Q5 – Agree

1. Monitoring Group

BCBS

The Committee believes ED-600 is relatively scalable and flexible to groups of different sizes and especially for smaller, less complex groups comprised of only a small number of entities or business units.

In particular, we believe the following factors improve the scalability of the standard:

On the principle, the introduction of the risk-based approach and the group engagement team's focus on identifying, assessing and responding to the risks of material misstatement of the group financial statements requires the design of procedures adaptable to a wide variety of groups of different complexity. It highlights the responsibility of the group engagement team in the definition of the audit approach and its conduct.

By emphasising the importance of professional scepticism, especially when the group engagement team determines the direction of the work of the component auditors, ED-600 highlights the responsibility of the group engagement team in the scope of the component auditor's involvement.

By editorial form, the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved, provides scalability for circumstances where the group engagement team does not involve component auditors by making it easier to identify which requirements apply and which do not.

IAIS

The IAIS believes the 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 engagement team in identifying and addressing the risks of material misstatements in the group financial statements.

3. Regulators and Audit Oversight Authorities

IRBA

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

NASBA

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

4. National Auditing Standard Setters

AICPA

Yes, the proposed standard is scalable because it provides for situations in which component auditors are extensively involved or not involved at all. The risk-based approach in ED-600 enables the group engagement team to focus on the significant classes of transactions, account balances, and disclosures in the group financial statements and on identifying and assessing the related risks of material misstatement of the group financial statements. In addition, the subheadings that highlight requirements that are applicable when component auditors are involved allows for easy identification of applicable requirements. Finally the new definition of component, which enables the group engagement team to plan and perform the audit using the location, function or activity as determined by the group engagement team (i.e., the ‘auditor view’), allows for an approach that can be tailored to the group and provides for a more effective and efficient audit.

CAASB

We believe ED-600 is scalable to groups of different sizes. ED-600 was field tested on 11 group audits, ranging from a simple group audit with one component, to the group audit for a large government entity with 23 components and no significant issues were identified regarding scalability.

JICPA

We believe the proposed standard is scalable.

NZAuASB

The NZAuASB believes ED-600 is scalable.

5. Accounting Firms

CG

We believe that ED-600 is scalable to groups of different sizes and complexities.

CR

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

DTT

As noted in the cover letter, DTTL believes the proposed standard is scalable for a number of reasons, including:

Structure of ED-600. Separately identifying the requirements applicable to component auditors under a heading “Consideration When Component Auditors Are Involved” allows for those groups in which component auditors are not involved to focus on those relevant requirements and the related application material. (See also the response to question 2.)

Definition of component. The ability of the group engagement team to define what constitutes a component allows the proposed standard to be scaled for purposes of planning and performing audit procedures in a group audit.

Risk-based approach. Developing an overall group audit strategy and group audit plan that is focused on obtaining sufficient appropriate audit evidence in response to the risk assessment.

Direction and supervision. The ability of the group engagement team to tailor their direction, supervision, and review of the component auditor's work based on the nature and circumstances of the engagement, including the determination of the component auditor's competence and capabilities.

MNP

Yes, we believe the proposed standard is scalable to groups of different sizes and complexities.

6. Public Sector Organizations

AGC

Yes, we believe the standard is scalable.

AGO

We have no concerns with the scalability of this standard.

GAO

The scalability of ED-600 to groups of different sizes and complexities is appropriate.

PAS

Yes, the proposed standard is scalable to groups of different sizes and complexities.

7. Member Bodies and Other Professional Organizations

BICA

The proposed scope of the standard allows ascertainment of a group by the group management or by group engagement team. The group engagement team is therefore allowed to attribute group features to a structure different from that of group management to allow effective and more efficient obtaining of audit evidence. The group engagement team is therefore allowed to apply judgement in groups of difference sizes and complexities.

CalCPA

Yes, it is scalable.

CPAI

We believe that in the main scalability has been achieved.

ECA

Yes

ICPAS

Response: Yes

INCP

Answer: Yes, it is a scalable to groups of different sizes and complexities. Thus, by using ED-600, the auditor of a group composed of less complex entities would be able to conduct by themselves those procedures aimed at obtaining sufficient evidence on the group's financial statements without involving component auditors, provided that this is supported by the assessment of risk of material misstatement.

IPA

The proposals in the ED are scalable. However, as noted in our response to Question 2, the decision to include component auditor considerations as subsections make the standard cumbersome where the group audit will be conducted by a single engagement team.

MICPA

We believe the proposed ISA 600 (Revised) is scalable and provides more flexibility to the group auditors to plan and perform the audit of groups of different sizes and complexities.

The inclusion of separate sections for considerations when component auditors should be involved is very helpful for the group engagement team to identify which requirements need to be applied or not.

TFAC

Yes

8. Academics

HUNTER

We believe ED-600 is scalable to groups of different sizes and complexities.

9. Individuals and Others

VERA

Yes

Q5 – Agree with comments

3. Regulators and Audit Oversight Authorities

UKFRC

ED-600 builds on the requirements and application material in other ISAs and includes requirements and application material that refers to, or expands on, how other relevant ISAs are to be applied in a group audit in a way that is scalable to groups of different sizes and complexity. In our outreach we heard mixed views as to whether this is sufficiently clear.

In finalising the standard, we believe consideration should be given to including material which describes how an auditor, when auditing a less complex group that falls within the scope of ED-600 could scale the requirements of ED-600 (e.g. such as an group that has a non-controlling investment in an entity which management has elected to equity account for). This could be achieved through in the inclusion of an illustrative example that focuses on the most relevant aspects of ED-600 in such circumstances (e.g. those

relevant to access), and highlights those requirements that would not be relevant in the circumstances (e.g. those relevant to common controls).

4. National Auditing Standard Setters

AUASB

The AUASB acknowledges that the level of scalability is dependent on the auditor's professional judgement, as the standard facilitates a group auditor's decision to aggregate common components. Additionally, the AUASB supports the built-in scalability of separate sections when using component auditors in the proposed standard. However, there are some scenarios where the AUASB does not consider that the proposed standard is scalable to groups of different sizes and complexities. The AUASB makes the following suggested enhancement to aid in the scalability of the proposed standard:

ED ISA 600 scopes in some very simple group structures for example a single entity with branches where their financial information is aggregated and for which no component auditors are used. While the AUASB understands that the underlying ISAs are applicable and ED ISA 600 is special considerations only, there is expected to be an extensive amount of documentation to effectively demonstrate that the special considerations of ED ISA 600 are largely not applicable. The AUASB recommends that for simple single entity structures, the auditor exercises professional judgement in determining whether ED ISA 600 applies. The IAASB could determine the factors to be considered in exercising professional judgement including considerations such as inherent risk factors, commonality of controls and centralisation of activities.

An appendix to the standard, or implementation support on scalability with examples of types of group audits with related scaled requirements, for example scalability considerations that would be particularly beneficial for the public sector:

one component in the same jurisdiction as the parent;

several components with the same risk profile as the parent in the same jurisdiction.

HKICPA

We believe ED-600 has the potential to drive scalability through its risk-based approach which is adaptable to a wide variety of circumstances. Given that it establishes explicit linkages to other ISAs for application in a group audit engagement and as we pointed out in Question 1, it will be helpful for the IAASB to clarify how other ISAs could be applied in a scalable manner to the broad range of group audits that fall within the scope of ED-600 through further explanation and examples for less complex group audit engagements

MIA

The AASB believes the proposed standard is scalable to groups of different sizes and complexities as outlined in our response to question 2 above.

The separate sections for considerations when component auditors are involved make it easier for the GET to identify which requirements apply and which do not and may be particularly helpful to smaller group audit engagements that are performed entirely by the GET.

ED-600 has given GETs the flexibility in identifying, assessing and responding to the risks of material misstatement and will likely enhance the efficiency of the audit work by reducing unnecessary audit procedures. The AASB is supportive of different scopes of work that the GET may request component auditors to perform, which are largely consistent with the extant standard.

There may be challenges for the GET in applying paragraphs 31 to 39 as the complexity and the diversity of the group increases particularly in larger group audits. There are multiple conditions that the group engagement partner personally perform the actions to satisfy the requirement and is not able to delegate to other members of the engagement team. The AASB believes that greater collaboration with component auditors, auditor's experts and specialists at all stages of group audit is desirable in identifying, assessing and responding to the risks of material misstatement.

Further, the elimination of the concept of "significant components" and the requirement that such components be audited may lead to greater confusion about what work needs to be done and in which locations. The IAASB may want to consider additional guidance to help GETs in identifying when an audit of the component's financial information is necessary.

We recommend that in applying ISA 315 (Revised 2019), a GET should be required to make an initial determination of the components of the group based on the preliminary understanding obtained of the group. This would then form the basis for the group audit to request for a more in-depth understanding and further risk assessment procedures to be performed by the component auditors to enable the GET to make fully informed decisions about the final determination of components. This could be an interactive and continuous interactive process with the component auditors throughout the audit.

NBA

The ED seems to have sufficient flexibility. The scalability is mainly related to whether or not component auditors are involved. However, scalability is more comprehensive. We recommend considering special paragraphs for the audits of smaller groups/less complex entities.

5. Accounting Firms

BDO

We believe that ED-600 needs to provide additional guidance on how it is scalable to groups of different sizes and complexities. Based on additional information presented during the webinars, we understand that the intent was for the scalability requirements to be applied through references to ISA 315 (Revised) and in the requirements when component auditors are involved. Including this explanation in the application guidance may be helpful in applying the scalability provisions in the standard.

Further, as ED-600 is written, there may be instances when the group audit work may be performed by a separate team to the team performing the statutory audit which may not lead to an effective or efficient audit from an entity or stakeholder perspective.

Also, as the risk assessment and responses to the risks are performed over the group financial statements as a whole, there may be work required on business units of an entity that would not otherwise have been considered significant. We recommend reconsidering whether the current approach under existing ISA 600 whereby the group engagement team identifies significant components and allocate resources to those significant components may be more appropriate (see also our responses to Question 8).

BT

Yes. The considerations and principles are sufficiently generic to address both larger more complex groups and smaller less complex groups. However, the size of the standard may be a prohibition to identifying what reductions are possible for smaller less complex groups. As drafted, other than component auditor requirements there is no clear identification of the scalable elements, and the component auditor elements

only fall away if all components are audited by the group auditor. Otherwise the only other place where the standard is obviously scalable is where the group auditor has no external restrictions on access. So the IAASB is leaving it to the authors of audit methodologies to interpret the standard, and they will likely be thinking less complex first. That might be good for innovation, but it might be bad for consistent application or possibly give results which are inconsistent with the IAASB's intention. To address the risk of inconsistent application, the board might consider re-writing the following sections from a standpoint of "less complex first":

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

Materiality

Responding to the Assessed Risks of Material Misstatement.

ETY

Yes, we believe the standard is scalable to groups of different sizes and complexities, but we think the scope should be extended to "combined financial statements" (Conceptual framework par. 3.12) because in some jurisdictions there are an important population of reporting entities at group level which do not have a parent-subsidiary relationship with the other component entities. In these jurisdictions, it exists a mandatory group audit for these kind of reporting entities.

MAZ

We believe that scalability is a concept which applies in two directions: towards "simple/less complex" groups but also towards very complex groups (groups with different information systems, shared services centers, sub-consolidations, multi-activities, etc.).

We believe that the present ED ISA 600 is probably scalable for less complex groups but it is not clear that it is suited to address very complex groups without significant auditor judgment, that may not be clearly supported by the standard. We believe the approach of scoping by component in extant ISA 600 is probably better suited.

MAZUSA

Response: We believe that the emphasis on auditor's professional judgement makes the proposed standard scalable to different sizes and complexities of groups. However, we are concerned that the lack of guidance on how to determine the extent of work to be performed on components will lead to diversity in practice. We recommend additional application material on scoping by component.

NEXIA

h) Application of scalability

More guidance as how to apply scalability will be helpful.

HONG KONG

It may be complicated or even impossible to apply some of the requirements to "small entities" that present group accounts.

Recommendation: To include a section on “Audits of Group Financial Statements” in the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities.

PKF

Scalability is an inherent challenge with the ISAs and is subject to professional judgement and is largely dependent on the understanding of the ISAs, as a whole, and an understanding of the entity being audited. The efforts made by the taskforce is greatly appreciated. Separating the requirements for component auditors from the requirements applicable to the group engagement team was an appropriate first step to scalability. Although mentioned and acknowledged, both in the application material of ED-600 and in section 1 and 2 of the explanatory memorandum, there are limited instances in flexibility or scalability for simple, less complex groups to sophisticated, more complex groups.

Requirements for planning and performing the group audit generally are equally applicable to all types of group audits. The scalability provisions of ISA 315 (Revised 2019) could provide additional considerations to the auditor for applying to the audits of complex or less complex groups, and it might be a helpful reminder to include a reference to the relevant sections of ISA 315 (Revised 2019) in ED-600.

RSM

Yes, we believe that the proposed standard is scalable due to the following:

the acknowledgment of the various group structures in the definition of a group;

the clarified definition of a component so that it is determined by the group engagement team;

the inclusion of the subsections which describe the extent of the use of component auditors including the nature, timing, extent of direction, supervision, and review of component auditor's work, particularly paragraphs A51-A52;

the linkage of assessed risks of material misstatement to appropriate responses.

We believe that the scalability of the standard would be further enhanced by adding a reference to the spectrum of inherent risk in the assessment of the components, consistent with ISA 315 (Revised). We believe that further application or implementation guidance would be useful for applying the standard to small and less complex group audits.

6. Public Sector Organizations

AGM

Yes, we believe the proposed standard could be adapted to groups for which the size and degree of complexity vary.

However, for very small entities, the auditor will have to invest more time in the understanding of the process in order to conduct a risk assessment, which would result in additional costs. Therefore, this approach could be more difficult to adapt to very small entities.

AGSA

Consider including a definition of a business unit, branch or division. This would assist the auditors of small auditees in determining whether certain locations, functions, activities or a combination is a component or

not. The standard should only apply when the division has prepared their own set of financial statements as per the accounting policies of the group.

7. Member Bodies and Other Professional Organizations

AE

Yes, ED-600 provides improvement to the extant ISA 600 in terms of scalability. We acknowledge that developing a single standard that covers a wide range of scenarios from less complex entities to very complex group structures is a challenging task. As noted above, this necessitates more guidance on how the standard can be scaled up or down in the extreme scenarios. This is not necessarily a task for the IAASB but the IAASB could provide valuable facilitation.

On the other hand, some of our members are concerned about whether too much emphasis on the centralized and top-down approach may result in more work, and potentially less informed risk identification and assessment, at group level without necessarily enhancing audit quality.

CAANZ-ACCA

Yes, we are of the view that the proposed standard is scalable and improved from extant. However, practitioners' feedback suggests that, to be able to scale the requirements of the standard appropriate for larger or smaller entities, it will be vital that they are able to perform the risk assessment correctly. Although the implementation of ISA 315 (Revised) will assist auditors in becoming more proficient with the risk-based approach which will assist with the implementation of ED-600, we do recommend that some form of implementation guidance is developed with examples of the risk assessment process for both small and large groups to assist practitioners.

CPAA

We agree that the standard is scalable for audits of smaller and less complex groups. In fact, we consider that it is likely that the standard will be more easily scalable for audits of those groups than for audits of larger and more complex groups. Whilst the risk assessment provides the main mechanism for scaling the audit response, it will be critical to make an appropriate assessment so that the audit effort is targeted, but still adequate to obtain sufficient and appropriate evidence. The scalability challenges in applying the standard are likely to increase as the complexity of the group increases, rather than the reverse, which is reflected in ED paragraph A87. Increases in diversity and geographic spread of a group's operations increase the challenges for the group engagement team in conducting the risk assessment effectively and identifying which components require audit procedures to be conducted by a component auditor.

The complexity, which arises from a group with diverse and geographically spread operations, may include multiple industries, markets and/or jurisdictions with different legislative, business and cultural environments, which may use different languages and reporting standards. In such a complex engagement it may be inappropriate for the group engagement team to conduct the risk assessment and planning of the work to be conducted at the components, without reference to the component auditors. Indeed, for a new engagement, that will include a decision regarding whether to engage component auditors based on the group engagement team's risk assessment. When a component auditor is not engaged with respect to certain components or is engaged to conduct procedures with respect to a discrete matter at a component, the capacity for the group engagement team to obtain insights regarding the risks at that component may be non-existent or limited. Whilst paragraph 4 recognises that component auditors may need to be involved in all phases of the group audit, the requirements in paragraphs 31 and 32 state that the group engagement

team needs to take responsibility for the risk assessment, although they may involve the component auditor in that assessment. However, a more fulsome requirement may be needed to clarify when a component auditor should be engaged and involved in the risk assessment. For example, a component auditor may need to be engaged for material components operating in jurisdictions different from where the group engagement team is based and which have different legislation and reporting frameworks, or different or specialised industries to that of the entity or business unit which heads the group. Some of these factors are raised in paragraph A71 but would benefit from elevation to a requirement to clarify when these factors would necessitate the engagement of a component auditor.

EFAA

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

However, as previously explained, there is a risk that leaving the decision on the work to be performed and by whom solely to the GET's discretion will result in the group auditor electing to perform all risk identification, assessment and response procedures without recourse to component auditors. This may detract from audit quality. The component auditor may have specific in-depth knowledge and expertise, which the GET will not be able to benefit from without their involvement. This could result in some risks of material misstatement being missed as the GET may not be able to make fully informed judgments. The Board needs to determine how to ensure the GET appropriately exercises its discretion. Hence, there may be a need for tighter requirements for an audit approach relating to the involvement of component auditors.

In due course it will be interesting to see whether, and if so how, the Board plans to address audit of less complex groups in its proposed audit standard for less complex entities.

FAR

In general, FAR supports the response submitted by the Nordic Federation of Public Accountants and FAR therefore refers to this response.

IBRACON

We believe further clarity needs to be included in ED-600 for more complex or larger groups, with multiple components auditors (of even different networks and jurisdictions). Considering the group auditor is the ultimate responsible for the group financial statements audit, the determination of risk assessment procedures to component auditors is particularly important and additional guidance is helpful to properly address this issue (see also response of question 8 below).

ICAEW

Yes, overall, the proposed standard takes a proportionate approach and the revised definition of a component affords an element of flexibility for group engagement teams in how they approach the group audit. ED-600 is structured in a way that should enable the proposals to be scalable for smaller, less complex groups and where component auditors are not involved.

The standard is, however, significantly longer than the extant standard and some respondents to our enquiries have raised concerns that this might add more process – and work – particularly for larger groups, without necessarily enhancing audit quality. Appropriate field testing should shed further light on any challenges in relation to scalability and audit quality issues.

ICAS

We believe that ED-600 is scalable and indeed an improvement on the extant standard. However, given the scope of the standard, and that fact that it will encompass various groups of different sizes and complexity, implementation guidance as to how scalability can be achieved would be helpful, particularly in relation to smaller audit firms.

IIA

This is clear and allows for better scalability than the previous standard, as it permits component auditors to work in various configurations (e.g., process or product audits instead of strict business unit audits). However, there is no mention of legacy systems, which is a big consideration in terms of structuring an audit.

IMCP

Yes, it is scalable, but there are specific cases where the identification of a Group audit may not be so clear due to the separation of operations and assets in different legal entities, as is the case of Groups with a structure with an operating company, a service company, etc. This situation could be further developed as part of implementation guidance to provide examples of how the standard is or not applicable in the circumstances.

KICPA

We believe ED-600 develops requirements and the application material to make it fit with complex audit environments for groups that exceed a certain amount of sizes and have features of IFRS adoption, operation of internal controls in accordance with COSO, and build-up of relatively strong those charged with governance etc. However, SMPs performing audits of group of financial statements of small companies (comprising the most part of the economy), not subject to the above thresholds, face difficulties with identifying which part of their works are applicable to ED-600 or not and conducting audits accordingly. To address such difficulties, as we believe, it would be necessary to provide examples of items small entities are required to apply and selective items whose application is based on auditors' professional judgements in ED-600, along with illustrative examples for SMEs.

In addition, when considering comprehensive requirements across ED-600, the focus is made on the risk-based approach of the group auditor, thereby raising a concern that the engagement of component auditors could be limited in a passive manner. We are with the eventual enhancement of group auditor's responsibility in group audits, but we suggest the Board consider enhancing the role and responsibility of component auditors as well by including how the group auditor controls component auditors in dividing the responsibility for group audit failures, arising from faults committed by component auditors (e.g., inclusion of right of indemnity in the group audit engagement contract, in case of the occurrence of legal liabilities caused by faults of component auditors).

In case of big-sized, complex groups audits, it would be difficult for the group engagement team to conduct risk assessments on all of the components and communicate all of them with component auditors, which would end up with limiting the scalability of the standard.

NRF

Yes, we believe that the ED provides improvement to extant ISA 600 in terms of scalability.

We have some concerns that the centralized, top-down approach, especially with regard to allowing the GET to perform all risk identification, assessment and responsive procedures without recourse to component auditors, might lead to more work within the GET without necessarily enhancing audit quality.

NYSSCPA

Scalability can always be a problem as size and complexity are important constraints. We have members involved in small entity audits in which many audit adjustments were proposed as a result of control deficiencies, management competency deficiencies, or other reasons. Until the auditors are immersed in their work, the true nature of the specific risks is often unknown. When fraud surfaces, the audit work expands exponentially. One-size-fits-all approaches do not work; however, a thoughtful, risk-based approach can be efficient when experience, diligence and professionalism come together. In budgeting audit engagement time, we have found over the years that when more time is invested in planning, the engagement quality and efficiency usually improve, and last-minute surprises are often avoided.

SAICA

ED-600 is a principles-based standard and we believe that it incorporates all the elements that are needed to conduct a group audit engagement. It is important that the principles-based approach remains so that the final ISA 600 remains fit-for-purpose even as the environment in which group audits are performed continues to evolve. Refer to paragraph 27 below on how ED-600 can be improved to ensure that it is scalable for large and complex group structures.

While the standard needs to be principle-based, there needs to be a mechanism to address the practical challenges that may arise especially in complicated group structures. In this regard, SAICA believes that the examples in the application paragraphs could be further enhanced to take into consideration such complexities. Some of the complex areas where further guidance could be provided in ED-600 include use of shared service centres, coordination and communication challenges when there are multiple component auditors across international boundaries, significant equity investments not under control of group management and situations where group audits are performed by joint auditors.

Furthermore, the IAASB should consider issuing implementation guidance on some of the complex areas as mentioned above such as in paragraph 27. In this regard, implementation guidance to final ISA 600 (Revised) incorporating illustrative examples for these complexities and others that may be encountered by group engagement teams could prove to be useful. ED-600 cannot include examples of all of the practical challenges and scenarios that group auditors may encounter, therefore, non-authoritative implementation guidance with detailed examples would be useful in this regard.

SMPAG

As far as SMPs - who in many jurisdictions will serve as component auditors on the largest group audits or as group auditor for smaller or medium sized groups – are concerned, the proposed standard appears sufficiently scalable. However, there may still need to be firmer requirements for an audit approach relating to the involvement of component auditors. Leaving the decision on work to be performed and by whom entirely to the discretion of the GET carries a danger that a group auditor may erroneously elect to perform all risk identification, assessment and responsive procedures without recourse to component auditors, which could be detrimental to audit quality of the group financial statements. The component auditor may have specific in-depth knowledge and expertise, which the GET will not be privy to without their involvement. This could result in some risks of material misstatement being missed as the GET may not be able to make fully

informed judgments. As explained in response to question. 2 above, the SMPAG urges the Board to develop a mechanism to ensure audit quality will not be compromised by potentially less-well-informed decisions as to the involvement of component auditors.

Q5 – Disagree

4. National Auditing Standard Setters

CNCC-CSOEC

Although we consider that the ED-600 can, in some cases, provide improvement to the extant ISA 600 in terms of scalability (e.g. in the different approaches possible to respond to the assessed risks of material misstatements), we still consider that the standard is not sufficiently scalable.

The main scalability proposed by the ED-600 is the possibility to involve or not involve component auditors in the group audit, regardless of the group structure. However, we draw the IAASB's attention to the fact that a centralised approach (i.e. audit procedures performed centrally) is only relevant for groups with a centralised organisation (e.g. the less complex groups); such an approach does not reflect the evolution of today's economy in which groups are increasingly complex. In such groups, the audit cannot be fully performed centrally. The complexity of today's world requires, in the case of high complex group, an approach at local level with the involvement of component auditors. We therefore recommend that the IAASB revisit the scalability considerations to emphasize a more combined approach (top-down and bottom-up approach) and provide more guidance to explicit how the standard can be scaled up or down in the extreme scenarios, i.e. less complex group or very complex group structures.

As far as the risk assessment is concerned, we consider that the formalisation of the risk assessment is not clear enough. Further guidance should be provided on how to document the risk assessment according to the group's organisation (i.e. sub-groups, conglomerate ...). We are particularly concerned about the volume of documentation required, especially in the case of very complex groups. Moreover,

we have a concern with an overly centralised approach which, in our opinion, could result in a lack of efficiency and confidence in the audit approach.

IDW

We believe the draft to be more or less scalable for audits of the group financial statements of fairly homogenous, corporate groups of different sizes, whose entities and business units are situated for the most part in a very large country, such as the USA, with a comparatively uniform language, culture, laws and regulations, and business practices, and where component auditors are largely from the same firm, or perhaps network, as the group engagement team.

However, in line with our general response to Question 8 and our responses to (a), (b) and (c) in that Question below, we do not believe the draft represents a viable option in terms of effectiveness or scalability for audits of group financial statements for many corporate groups based in other countries (in particular in Europe), in which corporate groups of a certain size automatically straddle national boundaries and the group's entities and business units are situated in countries with very different languages, cultures, laws and regulations, and business practices, and due to varying laws and regulations governing auditor rotation in these jurisdictions component auditors are likely not to be from the same firm or network as the group auditor. We also believe that as risks of material misstatement in component financial information become more complex and hence become significant risks, more involvement is needed by component auditors.

Our suggestions for improved scalability are included in our response to Question 8.

KSW

We believe that scalability is not sufficiently addressed in ED-600. Our main concern pertains the emphasis of the centralized and top-down approach, which results in more work at group engagement team level and neglecting the involvement of component auditors.

Also, the elimination of the minimum types of engagements for components (e.g. full scope audits or reviews of reporting packages) of extant ISA 600 does not add to scalability. ED-600 does not include comparable principles that acknowledge the size and complexity of components.

This could mean that ED-600 needs application material for scaling up for audits of very large and complex groups.

5. Accounting Firms

EYG

No, we do not believe the risk-based approach is scalable to all groups of different sizes and complexities. Concerns were raised by the majority of the teams participating in our field testing activities that the approach to risk assessment and response in paragraphs 31-39 of ED-600 is not scalable upwards (i.e., that ED-600 would be particularly challenging for larger groups with many components, or complex structures with disaggregated operations in multiple jurisdictions). Please refer to our response to Question 8 for further details on the scalability of the risk-based approach and results from our field testing activities.

Other areas of ED-600 remain principles-based and seem to adequately address scalability to allow the standard to be applied to a wide range of group sizes, complexities and circumstances.

GT

We are concerned with the application of the proposals in ED-600 to larger group audits. Overall, our field testing identified that the proposals will be challenging to operationalise. Scoping at a group level may require many layers of disaggregation to clearly align the risk factors and differentiate significant risks to certain components. This method of scoping is likely to result in additional effort being required in a group engagement, which may not necessarily be needed to perform an efficient and effective group audit or result in a higher quality engagement.

Further, a significant number of the requirements in ED-600 require that the group engagement partner personally perform the actions to satisfy the requirement and not delegate such actions to other members of the engagement team. We agree that the group engagement partner should be appropriately involved in the group audit engagement and should accordingly, be responsible for the sufficiency and appropriateness of the audit evidence obtained in support of the group audit engagement. However, in a large multi-location group audit, we do not believe that it would be practically possible for the group engagement partner to fulfil all of these requirements.

We recommend that further guidance is provided as to the level of disaggregation necessary when performing a horizontal scoping and that the proposals be amended to make it clear that there is flexibility in scoping the group audit engagement, such that a group engagement team may still determine that a component is financially significant and request that full scope audit procedures be performed at that component. We further recommend that additional consideration is given to the requirements that the group

engagement partner is required to personally perform to identify those procedures that the group engagement partner could realistically delegate whilst retaining responsibility.

In many group audits, there may be many components for which an audit opinion is separately issued for local jurisdictional or other purposes. ED-600 as drafted may drive additional unnecessary audit work for the following reasons:

The proposals in ED-600 suggest that to be able to use the work of a component auditor in circumstances where a separate component audit opinion is issued, the group engagement team needs to be directly involved in that component auditor's work. We agree that the group engagement partner is responsible for determining whether there is sufficient appropriate audit evidence to support the group opinion, but we are of the view that this can be achieved through communications with the component auditor and other related procedures.

Paragraph 42 requires an audit performed on the financial information of a component to be completed and a report issued for the group engagement team to use the work performed at that component in support of the group audit opinion. As noted above, in practice, local statutory, or other audits, are usually performed at the same time as the audit of the group financial statements. This therefore has the impact of limiting the use of local statutory audits in a group audit.

To address these concerns, we recommend that ED-600 allow the group engagement team, where appropriate, to be able to use the results of audit procedures performed at that component in support of the group audit opinion, irrespective of whether that local audit has been completed, for example in circumstances where a statutory audit is performed concurrently with the group audit. We further recommend that ED-600 provides for flexibility in how the group engagement team uses the separate audit opinion issued by the component auditor and the additional procedures that may be required in that regard. As noted above, we recommend consideration is given to the PCAOB standard, AS 1105.

We also find the proposed guidance concerning sub-groups problematic, particularly in situations where the auditor of that sub-group is not part of the group engagement team. The level of involvement of the group engagement team in that sub-group is not clear. For example, it is not clear whether the group engagement team is required to be involved in scoping at the sub-group level, scoping of each of the components that comprise that sub-group or something in between. Similarly, for supervision and review of the work performed, clarity is recommended on whether the expectation is that this is performed at the sub-group level, the individual component level or something in between. In this respect, we also reiterate our previous comments in relation to the application of ISA 315 (Revised) to the scoping of a group audit and the expected documentation to be retained in the group engagement team's audit file.

KPMG

We acknowledge the Board's intentions to facilitate scalability of the standard for smaller/ less complex groups. However, we are concerned that certain of the changes introduced, as drafted, may detract from the importance of the role and responsibilities of the component auditor, including the apparent de-emphasis on performance of an audit over component financial information. Please refer to our responses to Question 1b) and Question 8 for further details, including our recommendations for additional enhancements/ clarification to address these concerns. These include additional emphasis of the importance of the role and responsibilities of the component auditor and the performance, by the component auditor, of an audit over component financial information.

MGN

We are concerned that ED-600 could be interpreted as presenting the concept that the main ‘driver’ of non-complexity is the non-existence of component auditors. While we accept that the existence of component auditors may make things more complex for the group auditor (although not necessarily), we believe that complexity can also arise from other circumstances. We believe that it would be helpful if IAASB considered whether it can envisage non-complex groups that might still involve component audits and, if so, further consider if the proposed standard is sufficiently scalable. Our concern lies in the possibility that the revised standard may in some non-complex cases increase work effort disproportionately compared to the improvement in quality achieved and further that the use of component auditors may consequently be disincentivised.

PwC

There are competing drivers, outlined below, that will determine whether the standard is viewed as appropriately scalable.

As explained in our response to question 2, the clarity as to which requirements apply based on whether or not component auditors are to be involved will benefit scalability, removing uncertainty about whether something is required or not based on the engagement circumstances.

The additional flexibility given to group engagement teams in designing the audit, and determining risks and how to specifically respond to those risks, may lead to some efficiencies by potentially avoiding unnecessary audit procedures (e.g., in smaller group audits where the group team determines they have the necessary knowledge and competence to perform procedures centrally). However, as we note in our cover letter and response to question 3 and 8, we believe additional guidance is needed to provide a framework for the judgements to be made by group engagement teams on the appropriate nature and extent of work to be performed at components to protect audit quality against inappropriate use of that flexibility.

In the context of a group audit, scalability at the large end is equally as critical as scalability for smaller and less complex audits. The flexibility afforded in this new model does not come without a cost. As the complexity of a group increases, the need for component auditor involvement at each stage of the group audit also likely increases, along with the potential need for experts. This is particularly the case for large conglomerates that operate globally in several diverse, unrelated business lines. Such groups may have unique characteristics, may require specialised knowledge (e.g., financial services), and may involve multiple sub-consolidations. The need to scale “up” for such entities can be considerable. To a lesser extent this will also be relevant for businesses that are less centralised, and operate on a more localised, territory specific management model. We believe the standard could do more to emphasise these considerations, alongside our recommendations around factors for the group engagement team to consider in deciding when, where, and to what extent, to involve component auditors. As we set out in our response to question 8 below, we recommend that the application material builds out these considerations by recognising the correlation between the spectrum of complexity and the need for greater involvement of component auditors, specialised knowledge and experts, in particular at the risk assessment stage.

We support retaining the options for the different scope of work that can be requested of component auditors. We note, however, that there is a difference from the extant, which made these decisions earlier in the audit process (i.e., the component auditor being asked to perform a full scope audit, including the risk assessment). We believe that there will remain components for which component auditors will need to be involved at all stages in the audit and not just after the nature, timing and extent of further audit procedures

have been determined by the group engagement team (as set out in our response to question 8). We recognise the importance of the group engagement team's involvement but believe that greater recognition of the necessary collaboration with component auditors is needed in these key decisions and judgements, including recognising the fact that component auditors may be best placed to make some of the decisions and judgements in the first instance.

6. Public Sector Organizations

AGA

No, ED-600 does not appear scalable. As previously noted, ED-600 has removed the concept of significant component. The concept of significant component creates scalability and provides guidance when using audit evidence from an audit performed for another purpose.

Furthermore, how would ED-600 be applied with ISA 540? Is a group engagement partner or group engagement team required to complete the requirements of understanding an accounting estimate as required by ISA 540? Is the group engagement partner or group audit team permitted to delegate these requirements to a component auditor? The current ED-600 does not provide guidance on this issue.

Given the increased requirements on both the group engagement partner and group engagement team, ED-600 does not appear scalable.

7. Member Bodies and Other Professional Organizations

WPK

No, we disagree that the proposed standard is scalable to groups of different sizes and complexities. Whilst extant ISA 600 requires the group auditor to analyse the significance of individual components carefully, resulting in the identification of significant components due to size and due to risks, ED-600 abolishes similar considerations and requirements. Similarly extant ISA 600 prescribes minimum work efforts (i.e. types of work) for significant components and the minimum involvement levels of group engagement teams in the work performed for significant components, ED-600 does not include comparable principles that acknowledge the size and complexities of components - and thereby the complexity of the entire group. In general we believe that ED-600 is particularly negligent with regard to special considerations to multinational and heterogeneous groups.

Q5 – No Comment

1. Monitoring Group

IFIAR

No comment

IOSCO

No Comment

2. Investors and Analysts

CRUF

No Comment

3. Regulators and Audit Oversight Authorities

CEAOB

Revised structure to outline the requirements for situations where component auditors are involved, which is intended to help application of ED 600 to group audits of different complexity

The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.

We particularly support the following changes made:

CPAB

No Comment

CSA

No Comment

IAASA

We particularly support the following changes made:

IAASA supports the IAASB project to revise ISA 600 to enhance provisions applicable by auditors in audits of group financial statements.

Revised structure to outline the requirements for situations where component auditors are involved, which is intended to help application of ED 600 to group audits of different complexity.

MAOB

No Comment

4. National Auditing Standard Setters

ICAI

No Comment

7. Member Bodies and Other Professional Organizations

CAQ

No Comment

ISCA

No Comment

SRO AAS

No Comment

8. Academics

AFAANZ

No comment

GRAHAM

No Comment

LI

No Comment

9. Individuals and Others

PITT

No Comment