

Supplement A.1 to Agenda Item 4

ED-600 Question 2 – Do you support the placement of sub-sections throughout ED-600 when component auditors are involved

Question 2

With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?

Q2 – Agree

1. Monitoring Group

BCBS

We agree that this is an appropriate structure for the reasons set out in Section 2-C of ED-600. We also think it reinforces the overall responsibility of the group engagement team for all aspects of the audit, as it emphasises that the involvement of the component auditor is a judgement made by the group engagement team when applying the foundational standards.

IAIS

The IAIS agrees that the structure of the standard is appropriate. It helps reinforce the responsibilities of the Group Engagement Team for the overall audit and highlights the role of the component auditor as part of that team.

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

We particularly support the following changes made:

CPAB

We further support the structure of ED-600 with the inclusion of subsections throughout the standard that highlight the requirements when a component auditor is involved.

IAASA

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.

We particularly support the following changes made:

NASBA

NASBA supports the placement of subsections to highlight the requirements when component auditors are involved. It is helpful to have the requirements separated so that it easier to identify the incremental procedures when component auditors are involved.

4. National Auditing Standard Setters

CAASB

We support the structure of the standard and the placement of materials related to the CA in the sub-sections. Stakeholders found this structure easy to follow. This structure may help to direct the CA to guidance applicable to their work and facilitate their understanding of requests from the GET.

HKICPA

We support the placement of sub-sections throughout ED-600 which has enhanced understandability and drawn attention to corresponding requirements when component auditors are involved

IDW

Without commenting on the content of the sub-sections throughout the draft that highlight the requirements for when component auditors are involved, we agree that it makes sense to deal with the requirements for when component auditors are involved in the relevant sections of the draft and therefore agree with the placement – but not necessarily the content – of these requirements in such sub-sections.

JICPA

We support the placement of sub-sections.

5. Accounting Firms

BT

Yes. It is helpful to separate the requirements when component auditors are involved from the requirements of an individual firm conducting the entire group audit. This is especially so given the revision of the definition of a group to be one where there is a consolidation process.

CR

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

ETY

Yes, we support the placement of sub-sections highlighting requirements for component auditors when they are involved, throughout ED 600. Doing so allow the whole group audit team to consistently understand and apply comprehensively every requirement at the right phases of the audit. It also reinforce the scalability of the standard.

GT

We support the placement of sub-sections throughout ED-600, highlighting the requirements when component auditors are involved. These sub-sections were supported by both the group engagement team and by component auditors within our network, both of whom indicated that this structure clarified the role of the component auditor in the various phases of the audit and as such, resulted in a standard that was easier to apply.

MGN

The sub section approach works well. It will be helpful particularly for group audits where component auditors are not used, since the sub section structure will make it easier to see which elements do not apply in that situation.

PKF

Yes, we support the placement of sub-sections throughout the ED-600 to address the requirements of component auditors. By following this approach, we believe that it reinforces and emphasizes the importance of the involvement of component auditors throughout all phases of the group audit.

RSM

Yes, we support the proposed structure of the standard.

The sub-sections highlighting the requirements when component auditors are involved are logical and intuitive. They reinforce the concept that ED-600 applies even when component auditors are not involved. We also believe that the structure clarifies the level of interaction needed between the group engagement team and component auditors, as well as the extent of the use of component auditors in the various phases of the audit.

6. Public Sector Organizations

AGM

Yes.

AGO

Yes, we support this approach.

AGSA

Yes, this will assist in highlighting the responsibilities of the component auditors specifically.

PAS

Yes, we support the placement of sub-sections

7. Member Bodies and Other Professional Organizations

BICA

We support the placement of subsections to highlight the requirements when component auditors are involved as it will make easier reference in identifying and following the right procedures when component auditors are involved.

CAANZ-ACCA

Yes, we support the proposed structure.

CPAA

We support the placement of sub-sections that highlight the requirements when component auditors are involved. More precisely, we believe that it is helpful to show those sub-sections separately. This makes it easier to identify the requirements and procedures when component auditors are involved.

CPAI

On balance we support the proposed structure used throughout ED-600. It ensures that the consideration of the work of the component auditor is considered at each important stage of the audit process.

ECA

Yes

FAR

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

IBRACON

We support the inclusion of the sub-sections to highlight the specific requirements that need to be fulfilled by the group auditor when component auditors are involved and also addresses the scalability issue for consistent application.

ICAS

We are supportive of this approach. We understand that some may view this approach as potentially undermining the important role that component auditors can play in a group audit, however, on balance we believe the proposed approach to be appropriate.

ICPAS

Response: Yes

IIA

Yes.

IMCP

Yes, the placement of subsections throughout the ED-600 makes a practical approach by following a step-by-step analysis that leads to comply with the requirements when component auditors are involved.

INCP

Answer: Yes; it allows for a clearer understanding on when the component auditor must act in a group audit and the support the auditor of the group's financial statements must be provided with in order to determining critical matters that may have an impact on the group audit.

MICPA

We support the placement of sub-sections throughout the proposed ISA 600 (Revised) that highlights the requirements when component auditors are involved, as it provides clearer linkage to other standards and the requirements of the relevant standards.

NRF

Yes, we support this structure and believe it is easier to navigate in the standard.

NYSSCPA

We believe the structure is helpful for both group and component auditors to focus on their respective responsibilities and implementation considerations and that the interaction of firms and individuals within those firms and with individuals in component firms is a critical process. In many large group audits the direction and supervision of the engagement process itself is a full-time process for one or more individuals. The focus on common goals and objectives are improved over the extant auditing standard when elements are explained for each process.

TFAC

Yes

8. Academics

HUNTER

We believe the placement of sub-sections throughout ED-600 helped clarify the roles and responsibilities of the group engagement team and the component auditors respectively. Adding the subsections provided clarity to the extra considerations needed when component auditors are involved.

Q2 – Agree with comments

3. Regulators and Audit Oversight Authorities

IRBA

We support the structure of the standard, especially the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved.

Additionally, the IAASB may want to consider whether the standard should differentiate between the review of the component auditor's working papers and the review of the component auditor's work, for example, in paragraph 23 of ED-600. The former would require the group engagement team to review the component auditor's audit file or replicate the component auditor's working papers in the group engagement team's audit file. The latter would require the group engagement team to document the component auditor's work or the report from the component auditor to the group engagement team.

Further, we suggest elevating paragraph A35 of ED-600 to a requirement, as this emphasises the need for the component auditor to confirm that it will conduct its work as directed by the group engagement team.

UKFRC

We believe that the inclusion of sub-sections throughout ED-600 highlighting specific requirements and considerations when CAs are involved is logical and aids scalability. However, some sections of ED-600

contain multiple sub-headings within short sections, multi-indented lists and other formatting elements which make the ED-600 difficult to follow in places. In this regard, the IAASB should consider the use of tables and well-designed diagrams to communicate more complex ideas, as is the case in ISA 315. ISA 315 includes helpful boxed examples where additional clarity is helpful for users. We would encourage the IAASB to consider formatting ED-600 in a similar manner to aid usability.

4. National Auditing Standard Setters

AICPA

Subsequent Events

The subheading above paragraph 48, “Considerations When Component Auditors Are Involved,” is not correct because there is no requirement for component auditors to perform subsequent events procedures. The work to be performed by the component auditor depends on the procedures the group engagement team asks the component auditor to perform. The heading above paragraph 48 should be deleted and paragraph 48 should be moved to follow paragraph 44 which addresses communications that the group engagement team is required to request from component auditors

Subsections That Highlight Requirements When Component Auditors are Involved

For the most part, we believe the new format is appropriate and allows ED-600 to be easily scalable in instances in which component auditors are not involved. We did however note that certain activities such as two-way communication between the group engagement team and the component auditor are not addressed under the subsection heading “Considerations When Component Auditors Are Involved.” That topic is only addressed in the requirements in paragraph 43, yet this ongoing interaction is fundamental throughout the proposed standard as noted in paragraph 4 of ED-600.

AUASB

The AUASB supports the placement of sub-sections throughout ED ISA 600 that highlight the requirements when component auditors are involved, as this greatly aids with the scalability of the proposed standard.

The AUASB considers that it may be beneficial to users of the standard, for a table summarising all the requirements related to component auditors as applicable to each phase of the audit be included as an appendix to the standard.

CNCC-CSOEC

We support the placement of subsections throughout ED-600 that highlight the requirements when component auditors are involved. This is particularly helpful for less complex group audits where component auditors are not involved.

However, as mentioned here above, we consider that the standard should promote a more balanced view. We therefore consider that the ED-600 should specifically state that the decision to involve or not involve a component auditor is a decision of the group auditor and that either option (involve or not involve a component auditor) may apply indifferently. We recommend to add a requirement in the ED for the group auditor to justify the appropriateness of the decision to use or not use component auditors

MIA

The AASB supports the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved. The placement of sub-sections supports the clarity of which requirements apply in certain circumstances and aid the scalability of the standard. This makes 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.

Despite our support of the placement of sub-sections throughout ED-600, the AASB would expect that there be a framework on the involvement of component auditors, in particular, with respect to risk assessment when component auditors are involved.

NBA

We support the placement of sub-sections. If component auditors are not involved, these sections are not applicable which makes it easier to navigate through the ISA.

The Standard offers the option to use component auditors. However, it seems that using component auditors is too open-ended. In many cases it is useful and even necessary to use component auditors. We recommend considering whether this could be adjusted in the wording. (See also Q5)

NZAuASB

The NZAuASB supports the placement of sub-sections through ED-600, as it helps the flow of the standard. Nevertheless, the NZAuASB also suggests including all the requirements relating to involving component auditors in a separate appendix.

5. Accounting Firms

BDO

Feedback from our outreach indicates that the sub-sections throughout ED-600 relating to involvement of component auditors are easily identifiable and useful for group engagement teams – both those that intend to use component auditors (to ensure all key requirements are covered) and those that do not intend to use component auditors (i.e., helps with scalability when applying ED-600).

Conversely, the component auditor requirements and application guidance are spread throughout ED-600, making it difficult for component auditors to understand the requirements that the group engagement team will apply to them. As mentioned in question 1b) above, including a summary of requirements relevant to component auditors all together in the group audit standard, or in a separate standard, would help resolve this issue.

CG

We support this approach. It is both important and helpful for practical reasons to highlight the requirements when component auditors are involved.

When Implementation Guidance is developed, the IAASB could consider developing a commentary that focuses on the role and duties of component auditors.

DTT

DTTL supports the use of sub-sections to specifically address the involvement of the component auditors. DTTL believes that this approach makes the proposed standard inherently scalable because when component auditors are not involved those requirements would not be applicable. Further, it highlights the importance of integrating component auditors throughout the audit cycle. However, DTTL notes some inconsistencies in the use of sub-sections. For example:

Paragraph 20(b) of ED-600 requires that the group engagement partner takes responsibility for “[o]btaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement...”. Addressing this requirement would likely involve the need for the group engagement team to communicate ethical requirements to component auditors; however, this requirement does not fall under the sub-section of “Considerations When Component Auditors Are Involved.”

Paragraph 30 of ED-600 requires that the group engagement team communicate to the component auditor component performance materiality (among other items). This requirement does fall under the sub-section for when component auditors are involved; however, the nature of the requirement (i.e., the group engagement team is communicating an item to a component auditor) seems similar to the involvement in the performance of the engagement noted in paragraph 23 of ED-600 (which does not fall under the sub-section).

DTTL believes that there is a risk that auditors will fail to understand that considerations for the involvement of component auditors does not strictly fall under the sub-sections of “Considerations When Component Auditors Are Involved,” and encourages the Board to either clarify the intention of the sub-sections or to more fulsomely identify all instances in which a sub-section is needed.

EYG

Yes, we support the placement of the requirements that address when component auditors are involved throughout ED-600 for the reasons highlighted by the IAASB in Section 2-C of the Explanatory Memorandum. Inclusion of these requirements aligns with the iterative nature of a group audit and emphasizes the two-way communication as relevant in the circumstances. However, we have an overall concern about the implication by the structure and wording of certain requirements that the involvement of component auditors is a less preferable alternative to the group engagement team performing work centrally. See our response to Question 8(a) for further comments.

Despite our support of the placement of the requirements, we do not support the fact that a substantial amount of guidance about the involvement of component auditors has been relegated to Appendix 1. This furthers our impression that the use of component auditors is not preferred over the group engagement team performing work centrally (refer to Questions 3 and 8). Also, the division and relationship between the guidance in the application material regarding involvement of component auditors and Appendix 1 is not clear and in some cases appears redundant.

ED-600 Appendix 1 has useful guidance about the involvement of component auditors, explaining for example that involving component auditors often increases quality as the component auditor is more attuned to the local risks and work practice (Appendix 1, paragraph 7). We recommend that the guidance in Appendix 1 be brought into the application material directly as it would remove areas of duplication with the application material and, more importantly, it would help support ED-600 providing a more balanced view of the role of the component auditor in a group audit.

MAZ

We support the placement of sub-sections throughout ED-600, however, we recommend an appendix that collects all of the sub-sections and related application material for the “Considerations When Component Auditors are Involved”.

MAZUSA

Response: We support the placement of sub-sections throughout ED-600 however, we recommend an appendix that collects all the sub-sections and related application material for the “Considerations When Component Auditors are Involved”.

MNP

Yes, we support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved. However, we are concerned that the application of the definition of “component auditors” may be difficult in some circumstances. Paragraph 9 of ED-600 states a component auditor is “an auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team”. We recommend adding examples of this concept to ED-600 to provide clarity to auditors in applying the revised definition. For example, we suggest clarification regarding the group auditor’s use of third-party auditors to perform inventory counts at specific locations and provide working papers to the group auditors. In this situation is the third-party auditor considered a component auditor whereby the additional requirements noted in the sub-sections within the ED-600 would apply? Would there be any situation in which a third-party auditor is engaged in a group audit but would be excluded from the definition of a component auditor?

NEXIA

Yes, we support this.

Yes, we support this.

Yes, placement of sub-sections helps to clarify the interactions and responsibilities between group engagement team and component auditor.

We support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved.

Having such “markers” would enhance ease of reading and allow the reader to quickly note which requirements relate to component auditors. This would increase efficiency, especially when the Firm is drawing up its Group Audit Instructions for component auditors

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

We are supportive of including new separate subsections within each section to identify specific “Considerations When Component Auditors Are Involved”.

United Kingdom 2

SOUTH AFRICA

SINGAPORE

AUSTRALIA/NEW ZEALAND

2. Yes – it is helpful to distinguish the sections to highlight particular issues arising where component auditors are involved.

United states 1

United States 2

United Kingdom 1

PwC

Yes. The sub-sections in each section of the standard clearly set out considerations for the group engagement team when component auditors are to be involved in the group audit. These sub-sections are helpful when navigating the standard and provide clarity over which requirements apply in a given engagement's circumstances.

These sub-sections also aid the scalability of the standard and may be particularly helpful to smaller group audit engagements performed entirely by the group engagement team (for example, if the group entities are all audited by the same team from a single office).

That being said, the clear separation of these requirements is only beneficial if the standard provides a sufficient framework to guide group engagement teams in considering whether, where, and to what extent, to involve component auditors as described in our cover letter and our response to question 8.

6. Public Sector Organizations

AGA

As stated above, ED-600 does not provide sufficient guidance for using the work of component auditors and using audit evidence from an audit performed for another purpose, see response to 1(b).

AGC

Yes, we support the placement of sub-sections throughout ISA 600 (Revised) as it facilitates the use and understandability of the standard. However, we have noted that ISA 600 (Revised) paragraph 21 is quite specific to component auditors and therefore could be placed in a sub-section. If requirements are not consistently placed in a sub-section, auditors may not note all those that are applicable.

GAO

The inclusion of sub-sections highlighting the requirements when component auditors are involved is helpful to users of the standard. Additional measures can be taken to make the sub-sections related to component auditors clearer within the requirements, including use of icons, underlining, or other ways to visually highlight the component auditor sub-sections.

7. Member Bodies and Other Professional Organizations

AE

Yes, the structure is helpful, especially for less complex group audits where component auditors are not involved. We see this as a positive contribution to the scalability of the standard, albeit this is not the only aspect of scalability. Please see our response to Question 5.

Notwithstanding the comment above, some of our members pointed out the 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. Please see our response to Question 8.

CalCPA

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

EFAA

We support the placement of sub-sections.

We suspect SMPs engaged as component auditors will welcome how the standard distinguishes between the GET and the component auditors' responsibilities. If component auditors are not involved these sub-sections are not applicable making it easier to navigate through the ISA.

As explained previously if component auditors are not used audit quality may be impaired. Hence, we urge the Board to consider how it can most effectively drive the group engagement partner's decision as to the optimal engagement team composition and to articulate this throughout the standard.

ICAEW

Yes, this structure is helpful. The sub-sections in ED-600 help to clarify interactions and requirements where component auditors are involved for each phase of the audit. They will also help make the standard more scalable on group audits where component auditors are not involved by clearly signposting the requirements that are not applicable in these circumstances. However, as noted above, these sections are generally written from the viewpoint of the group engagement team rather than the component auditor.

SAICA

SAICA supports the placement of the sub-sections that highlight the requirements when component auditors are involved.

While we support the view of ED-600 in that the group engagement partner should take overall responsibility for the group audit opinion, component auditors also have a significant role to play in ensuring that high audit quality is maintained and that the group audit opinion is appropriate in the circumstances. Therefore,

incorporating requirements for component auditors in ED-600 may ensure that component auditors take accountability for the quality of the work that they perform.

SAICA believes that the IAASB should also consider strengthening the guidance in ED-600 to demonstrate the role that component auditors should play in group audit engagements, including the work effort required from component auditors. Refer to our response to question 8 for further details on this.

SMPAG

We have mixed views on this. Some practitioners are supportive of how the standard distinguishes between the GET and the component auditors' responsibilities where they are involved. Others are concerned that the layout may imply that there are a lot of add-ons for GET when component auditors are involved. Therefore, there is a risk that this may convey the message that the group audit would be simpler/easier/less expensive etc. if the GET alone were to perform all, or as much as conceivably possible, of the audit work for the entire group.

Coupled with the concerns about potential audit quality aspects if component auditors are not used where it would be beneficial to do so, the IAASB may need to determine a mechanism for driving the group engagement partner's decision on engagement team composition (at engagement acceptance and continuance stage, but also consider the need for a specific re-evaluation at the more concrete audit planning stage subsequently) and to present it logically throughout the standard. Such mechanism could be a requirement applicable in all cases, or a conditional requirement applicable only when the factors that need due consideration (e.g., where groups have components in jurisdictions with significantly different laws and regulations, cultures, languages and business practices) are present. We encourage the Board to develop such factors or criteria and consider which mechanism might be most appropriate, bearing in mind that for audits involving non-global activities with all components within a single jurisdiction such consideration might be expected to be fairly straightforward or possibly unnecessary.

Q2 – Disagree

4. National Auditing Standard Setters

KSW

We want to point out that there is a risk of undermining or discouraging the involvement of component auditors by presenting relevant requirements separately. We also do not believe that the new structure will contribute to the scalability of ED-600.

5. Accounting Firms

KPMG

We recognise the IAASB's intention to facilitate scalability of the standard by placing sub-sections addressing involvement of component auditors throughout the standard, to highlight the requirements applicable to each "stage" of the group audit, for ease of use, recognising that different group engagement teams will involve component auditors on different aspects of the audit, as well as the fact that, in certain cases, component auditors will not be involved at all. We also understand that this approach mirrors the iterative nature of their intended involvement, to drive a more focused approach and to avoid defaulting to an audit of component financial information.

This structure/ layout, together with the new “risk-based approach”, and the fact that the group engagement team may involve the component auditor as they consider most appropriate, rather than following the traditional, required “scoping” decisions, which led to defined response routes, may be viewed as more flexible, and more efficient/ scalable.

However, we have concerns regarding the scalability of the revised standard for larger/ more complex groups, as we describe in our response to Question 5. In connection with this, we highlight that the proposed layout, with the responsibilities of component auditors interspersed throughout the standard, may exacerbate these concerns, as it may further detract from the role and responsibilities of a component auditor.

We recommend, therefore, that the requirements for component auditors be set out together in a specific section that is clearly marked in relation to component auditors, to give more prominence to this important role. We also recommend that these requirements be further strengthened/ clarified appropriately. (Please see our response to Question 1b).

7. Member Bodies and Other Professional Organizations

IPA

No, we do not support the proposal. We are concerned that the result is cumbersome and particularly not user friendly where a group engagement is being carried audit by a single audit team.

The IAASB should split the standard into two parts comprising: group audit consideration; and component audit considerations.

WPK

From a formal point of view we do not disagree with the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved.

However as explained in our comment letter we fundamentally disagree with the split of work between the group auditor and component auditors as proposed in ED-600 (see sections 1-4 and 6-7 of our comment letter).

8. Academics

AFAANZ

We are concerned that some of the references to issues relating to component auditors (both specific sub-sections and general sections) are not unique to component auditors and are relevant to group audits, irrespective of whether a component auditor is used or not. While research suggests that the audit quality concerns in group audits are likely to be more pronounced when component auditors are used (e.g., Carson et al. 2019), there are quality threatening coordination and communication issues that exist independent of whether or not component auditors are used (Hanes 2013). For example, research on distributed teams from the same office (i.e., not component auditors) highlights communication challenges and a lack of shared identity in such settings (Downey et al. 2020). Our concern is that too much emphasis on component auditors may inadvertently contribute to an incorrect belief that the requirements, application and other explanatory material is not relevant when component auditors are not involved. We recommend that a careful review be undertaken of provisions in the proposed standard that are currently focussed on

component auditors to determine whether they address unique issues appropriate only when component auditors are used, or more generally applicable to a group audit.

Q2 – No Comment

1. Monitoring Group

IFIAR

No comment

IOSCO

No Comment

2. Investors and Analysts

CRUF

No Comment

3. Regulators and Audit Oversight Authorities

CSA

No Comment

MAOB

No Comment

4. National Auditing Standard Setters

ICAI

No Comment

7. Member Bodies and Other Professional Organizations

CAQ

No Comment

ISCA

No Comment

KICPA

No Comment

SRO AAS

No Comment

8. Academics

GRAHAM

No Comment

LI

No Comment

9. Individuals and Others

PITT

No Comment

VERA

It does not matter where such requirements are placed.