

## Supplement A.2 to Agenda Item 4

### Question 3 – Do the requirements and application material appropriately reinforce professional skepticism

#### **Question 3**

Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

#### **Q3 – Agree**

##### **1. Monitoring Group**

###### **IAIS**

The IAIS agrees that the draft standard appropriately reinforces the exercise of professional scepticism.

##### **3. Regulators and Audit Oversight Authorities**

###### **NASBA**

NASBA supports reinforcement of professional skepticism in ISA 600 and believes paragraphs 5 and A9-10 of ED-600 accomplish that objective.

##### **4. National Auditing Standard Setters**

###### **AICPA**

We believe the incorporation of requirements and application material related to professional skepticism is appropriate and agree with the approach taken in ED-600.

###### **HKICPA**

We agree with the approach of ED-600 to emphasize the importance of professional scepticism in the Introduction to the standard, and then reinforce it through establishing linkages to other ISAs as well as requiring the group engagement team to “stand back” before giving a group audit opinion.

##### **5. Accounting Firms**

###### **BT**

ED-600 regularly reinforces professional scepticism. References to other relevant standards such as ISAs 200, 210, 315, 330, and 540 make it clear that professional scepticism is a core element of a group audit and of auditing.

###### **CG**

The requirements and application material of ED-600 do appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements.

###### **DTT**

DTTL believes that professional skepticism has been appropriately reinforced in ED-600. DTTL agrees with the approach adopted to address professional skepticism, in particular the use of the stand-back

requirement in paragraphs 49–51 of ED-600 to challenge the group engagement to evaluate whether sufficient appropriate audit evidence has been obtained.

#### ETY

Yes, ED-600 appropriately reinforce the exercise of professional skepticism by highlighting it in the requirements (Par.5 and 6) and the application material (Par. A7 and A9).

### 6. Public Sector Organizations

#### AGA

Yes, ED-600.05 and .A9-.A10 provide sufficient emphasis on professional skepticism.

#### AGM

Yes, the requirements and application material of ED-600 adequately reinforce the exercise of professional skepticism in relation to an audit of group financial statements.

#### AGO

Yes.

#### AGSA

Yes, this enables the group auditor to conduct the audit in a manner that is applicable or specific to the auditee.

#### PAS

Yes, the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements.

### 7. Member Bodies and Other Professional Organizations

#### BICA

The ED-600 appropriately reinforcement the exercise of professional scepticism in relation to an audit of group financial statements as per paragraphs 5 and A9-10 of ED-600.

#### CPAI

We welcome the application material relating to the exercise of professional scepticism.

#### ECA

Yes, except for ISA 500. See corresponding comments

#### ICPAS

Response: Yes

## INCP

Answer: Yes, ED-600 emphasizes the permanent interaction between the group's audit team and the component auditor and a two-way communication; on the component auditor's job review by the partner in charge of the group and each team member's responsibility to exercise professional skepticism while performing the engagement; the communication and discussion of relevant matters on the group audit by the component auditor with the component and/or the group management.

## NYSSCPA

Although skepticism is a basic auditing concept, we believe reinforcement of it in the areas most prone to auditors' judgments is a useful addition.

## TFAC

Yes

## 8. Academics

### HUNTER

We believe the ED-600 appropriately reinforces the exercise of professional skepticism through paragraph A9.

## 9. Individuals and Others

### VERA

Yes

## Q3 – Agree with comments

### 1. Monitoring Group

#### BCBS

We agree that the discussion of professional scepticism in ED-600 in paragraphs 5, A9, and A10, as well the related references to professional scepticism in paragraph A238 of ISA 315 (Revised 2019) and paragraph A11 of ISA 540 (Revised), reinforce the exercise of professional scepticism in relation to an audit of group financial statements. Although the aforementioned discussion provides examples of how an auditor may document their use of professional scepticism, consideration should be given to expand how the use of professional scepticism can be documented in the auditor's work-papers. More specifically, we suggest that the documentation referred to in ED-600 paragraph 57(d) include a discussion of the procedures performed, the nature of the audit evidence, and basis for the auditor's conclusions. Documentation should include how evidence that contradicted management's assertions was considered.

Additional suggestions or matters of clarity:

ED-600 paragraph A9: 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 engagement team. Notwithstanding that it is reasonable that some reliance be placed upon compliance with network wide policies and procedures, there is a risk the group engagement team is too accepting of the findings of the component auditor and fails to identify those occasions when it should step-back and apply greater scrutiny.

ED-600 paragraph A9: it would also be useful to highlight the additional challenge that arises from the scale and complexity of many groups (eg complex legal structures, layers of management, different jurisdictions and languages, many and complex intra-group transactions). The complexity increases the susceptibility of the group financial statements to the risk of error and fraud, so it is important that the engagement team exercises scepticism throughout the audit process.

Given the risks to the audit posed by the complexity of many groups, it would be appropriate for the group engagement team to frequently stand back and assess whether the progress of the audit is satisfactory (eg there has been the appropriate identification of risks, selection of audit procedures etc). Standing back at the risk assessment stage might be particularly important to ensure the 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.

ED-600 paragraph A9: the example in the application material is for the group engagement team to remain alert for contradictory information from component auditors. A further example that focuses on the component auditors themselves may help reinforce the application of paragraph 5 to the component auditor as part of the engagement team. For example, the group engagement team could ask the component auditor to communicate potentially contradictory information (eg matters communicated by the group engagement team or other component auditors contradicts the assertions of component management) they become aware of (including information they become aware of after they have formally reported to group engagement team).

### 3. Regulators and Audit Oversight Authorities

#### IRBA

We agree that the requirements and application material of ED-600 appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements.

We recommend that the IAASB considers additional examples in the application material to illustrate how an auditor demonstrates or encourages professional scepticism. Such examples could include a scenario where a group audit, at the election of the audit client, is performed by multiple audit firms, including joint auditors, and the need to understand why the group audit is not performed by a single audit firm, as well as the resulting effect on professional scepticism, if any.

#### UKFRC

We agree with the approach being taken by the IAASB in ED-600 to emphasise the importance of professional skepticism in the introduction to standard, and to establish requirements and application material that are intended to drive sceptical behavior in an audit of group financial statements by all members of the engagement team. In particular, we support:

ED-600.A9 that highlights the additional considerations auditors need to be aware of in exercising professional skepticism appropriately in an audit of group financial statements when applying the requirements and guidance in ISA 220.

ED-600.49 that requires the auditor to “stand back” prior to forming a group audit opinion and evaluate whether sufficient appropriate audit evidence has been obtained from the procedures performed, including those performed by CAs. This will assist in supporting the exercise of professional skepticism by the group engagement partner.

In our outreach we heard support for the new requirements and application material - professional skepticism demonstrates a commitment to high-quality audit work. However, some of our stakeholders suggested it be made clearer that all members of a group audit should be proactive in challenging management on explanations and assumptions received. We recommend that the IAASB emphasise this, and we have included our suggestions in this respect in our response to Question 8(a) under the heading 'Responsibility for Managing and Achieving Audit Quality'.

In addition, our stakeholders expressed concern that auditors do not always give enough consideration to impediments to the exercise of professional skepticism at the engagement level. In particular, that complex and tight reporting deadlines across a group may constrain the ability of the engagement team to make appropriate judgements and question management's assertions in an informed way. Stakeholders noted that this risk can be mitigated by renegotiating or delaying reporting deadlines. We therefore recommend, that the material in ED-600.A9, that is linked to the requirements and guidance in ISA 220 and discusses the exercise of professional skepticism, is enhanced to:

Describe that when working to very tight group reporting deadlines, the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions may be constrained; and

Include possible actions that the engagement team may take to mitigate such impediments to the exercise of professional skepticism at the engagement level, such as communicating with those charged with governance of the group when management imposes undue pressure.

#### 4. National Auditing Standard Setters

##### AUASB

The AUASB considers that the exercise of professional scepticism in relation to an audit of group financial statements could be strengthened through additional application material and the AUASB makes the following recommendations:

##### Component auditors

While the AUASB largely supports that the decision of the nature and extent of the involvement of component auditors is the determination of the group engagement team based on an assessment of risk, the AUASB highlights that there is a risk that component auditors may not hold a sense of accountability and responsibility towards the group auditor and possibly impact on the auditors general exercise of appropriate professional scepticism in the audit work assigned to them. Refer also our response to Question 8(a).

The exercise of professional scepticism by component auditors is particularly at risk where the involvement of the component auditors is limited to specific further audit procedures as identified and communicated by the group engagement team. These limited procedures could imply that the component auditor is only required to undertake those procedures with no other professional judgement or professional scepticism required to be applied (akin to an agreed upon procedures engagement).

The AUASB suggests that the application material to ED-ISA 600 needs to reinforce the importance of professional judgment and professional scepticism by component auditors and that the component auditor through 2-way communication with the group engagement team, has the mechanisms / flexibility to undertake additional procedures and report/communicate on any issues that may threaten the group audit and that impact on the efficiency and effectiveness of the group audit and that component auditors are not

be limited by the scope of work ‘pushed down’ by the group engagement team. Additionally, application material could expand on considerations for the group audit team to communicate to the component auditors such as:

- specific legal and political impacts affecting the entity;
- cultural environment relevant to the entity; and
- other risk factors that may be consistent across the components known to the group auditor.

#### Engagement Resources

Audit research highlights the importance of a team/shared identity in minimising coordination and communication issues. While the paragraph A40 of the proposed standard acknowledges that audit work conducted across different locations with different characteristics (for example, language and culture) may be more challenging in a group audit engagement, the AUASB encourages additional application material that further emphasises potential risks to consider when dealing with diverse audit teams and management.

#### CAASB

We believe paragraph 5 appropriately explains the concept of professional skepticism and paragraph A9 provides one example of how professional skepticism is exercised in a group audit. However due to the complexity of some group audits and the large number of engagement team members involved across multiple jurisdictions, further examples of how practitioners can apply professional skepticism in a group audit would be useful. These examples could highlight how the GET may need to exercise heightened professional skepticism when reviewing CA documentation based on the GET's understanding of cultural differences, consideration of international measures such as the corruption perception index that may indicate elevated risks for the group audit, and risks and issues related to emerging markets. Examples of other areas where professional skepticism may need to be heightened could be included, such as:

Understanding how cash flows within the group are processed;

Understanding transfer pricing arrangements; and

Confirming cash balances in foreign jurisdictions.

In addition, as outlined in our response to question 8(b), the suggested revision to application paragraph A116 could also enhance the GET's application of professional skepticism in the group audit.

#### MIA

The AASB is of the view that the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements. The emphasis on the importance of professional skepticism and professional judgement as well as new “stand-back” requirements are useful reminders to the GET.

However, the changes in risk assessment and basis for scoping may undermine professional skepticism as component auditors may only perform the procedures necessary to audit the specified account balances or line items and give insufficient consideration to the risks relating to the component.

Further, the emphasis on the overall role of the GET for audit quality in a group audit may have diluted the sense of ownership by component auditors for the judgments and decisions made. There may be unintended consequences on the professional skepticism and professional judgement.

In this case, further clarity is needed with respect to the involvement of component auditors in the risk assessment and articulation of the responsibilities of component auditors to highlight the importance of professional skepticism and professional judgment in performing a group audit engagement.

## NZAuASB

The NZAuASB acknowledges that ED-600 does emphasise the importance of professional scepticism. However, it may be helpful to provide some examples of potential impediments to professional scepticism that may apply in a group audit engagement: for example, by drawing the attention of the group auditors to potential impediments that may impact the component auditor's exercise of professional scepticism and how they can be addressed. Examples of such potential impediments may include:

Pressure to complete a component audit in a short time to meet deadlines determined by the group engagement team.

Unconscious bias as a result of believing it is the group auditor's role to be professionally sceptical and the component auditor's to simply follow instructions from the group.

Perceived differences between the group engagement team's professional prestige, or fear of reprisal, may deter component auditors from challenging the accuracy and appropriateness of the instructions they receive, even when they find them inadequate or inaccurate.

The NZAuASB also draws attention to the AFAANZ submission, which draws particular attention to research evidence on team dynamics and team identity in a multi-national group audit engagement and how such dynamics might threaten or reinforce the exercise of professional scepticism in group audits. The academic research in this area highlights challenges that a group engagement team may encounter in fostering a team identity that enhances audit quality.

## 5. Accounting Firms

### BDO

The references to professional skepticism in the requirements (ED-600.5) and application material of ED-600 do reinforce the general principle, particularly related to applying professional skepticism when applying other ISAs. The application material does discuss some challenges to exercising professional skepticism in a group audit situation but does not provide much guidance to the group engagement team on overcoming those challenges. For example, much of the knowledge of the local legal and cultural environment rests with component auditors, making it challenging for the group engagement team to exercise appropriate professional skepticism. A strong link between the group engagement team and the component auditors is critical for the group engagement team to have the necessary knowledge to exercise professional skepticism.

ED-600.A9 uses the words 'remain alert' which implies more of a passive requirement for the group engagement team. Perhaps there should be a more proactive requirement for the group engagement team to communicate to the component auditor about remaining alert for contradictory audit evidence, information that brings into question the reliability of documents and responses to inquiries that are used as audit evidence, etc.

We do recognize that providing practical guidance on exercising professional skepticism may be more appropriately placed in implementation support materials than in the application material of the standard.



## CR

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

## KPMG

We believe that the Board has struck an appropriate balance in terms of appropriately emphasising professional scepticism within the proposed standard, highlighting the particular aspects of group audits for which exercise of professional scepticism is most relevant, whilst not establishing overly prescriptive requirements, recognising that professional scepticism is fundamentally a behaviour/ mindset.

We believe the introductory material at paragraph 5, together with the related application material, is helpful to set the scene regarding the exercise of professional scepticism and give greater emphasis to the importance of exercising professional scepticism throughout the group audit.

We also welcome the inclusion of the “stand back” requirement at paragraph 49, linked to ISA 330.26, to evaluate whether sufficient appropriate audit evidence has been obtained, including with respect to the work performed by component auditors, and, in connection with this, the requirement at paragraph 45(c), to evaluate whether the communications with the component auditors are adequate for the group engagement team’s purposes.

We consider the related application material at A9 to be helpful, in particular, the commentary which discusses evaluation of contradictory evidence as well as the material to raise awareness of the impacts of cultural differences of component auditors and the biases to which they may be subject. We recommend that the “standback” at paragraph 49 also be cross-referenced to this application material, as such matters may most appropriately be considered, and, in fact, may only become apparent, when procedures have been performed and audit evidence has been obtained across all the components.

We also recommend that the stand back requirement at paragraph 49 be linked specifically to the evaluation requirements in ISA 240 and ISA 540 also. Please refer to our response to Question 1b).

## MGN

We feel that the material in ED-600 is largely neutral on the exercise of scepticism specifically in a group audit context. There might be benefit in considering whether there are group audit specific conditions, events, nature or circumstances that might give rise to a need for heightened scepticism that could usefully be highlighted in application material. IAASB could usefully consider highlighting or at least acknowledging the role of component auditors in exercising their own, and enhancing the group auditor’s, scepticism as a result of jurisdiction specific knowledge and experience.

## MNP

We support the requirements and application material related to the appropriate exercise of professional skepticism in relation to an audit of group financial statements. However, we believe additional



implementation guidance on what constitutes appropriate evidence of the application of professional skepticism would be helpful in documenting professional skepticism within the audit engagement file.

## NEXIA

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

United Kingdom 2

United Kingdom 1

SOUTH AFRICA

SINGAPORE

United states 1

It is apparent that professional skepticism is necessary in relation to an audit of group financial statements.

In our view, there are already sufficient written requirements in ISAs regarding the need to exercise professional scepticism. Simply repeating similar words in different places is unlikely to make a practical difference.

The IAASB could help by considering further guidance on potential trigger points regarding scepticism which are specific to group audits. Furthermore, it should also consider leveraging the International Accounting Education Standards Board membership to consider how professional scepticism can be better taught, as it is a behaviour which must be learned.

3. See above – the stand back requirement could be more explicitly stated.

Yes, professional skepticism is appropriately addressed.

United States 2

NA

## RSM

Yes, we believe that professional scepticism is appropriately reinforced in ED-600.

Whilst paragraph 5 makes explicit reference to the use of professional scepticism, ED-600 emphasises the role that judgment plays in scoping, performing and concluding on a group audit, e.g. in paragraphs 23, 44-46 and 49-51. This will, in our opinion, lead to group auditors exercising increased professional scepticism in their work.

## 6. Public Sector Organizations

### AGC

Yes, we believe that with the requirements and application material, professional skepticism is appropriately reinforced in relation to an audit of group financial statements.

We found that paragraph A10, which mentions examples in other ISAs with no specific references, was not useful. Reference to specific examples would be preferred.

### GAO

The requirements of ED-600 appropriately reinforce the exercise of professional skepticism as it relates to an audit of group financial statements. We believe that an additional paragraph after the application material paragraphs on professional skepticism (A9 and A10) providing more focus for the component auditor would be helpful for component auditors.

## 7. Member Bodies and Other Professional Organizations

### CAANZ-ACCA

In our view although the requirements and application material of ED-600 can be useful, ED-600 should focus on reinforcing the exercise of professional scepticism more specifically for group audits. For example, according to the risk-based approach introduced in ED-600, auditors may view the group different than its legal structure for audit purposes, therefore some emphasis on professional scepticism and how it is exercised in particular circumstances could be helpful for practitioners.

Due to the revised definition of engagement team including the component auditors, the group auditor has overall responsibility for the group audit, including the work done by different firms. We received feedback that this extends the risk for the group engagement team and make the exercise of professional scepticism more complex and therefore guidance for practitioners in this area would be very helpful.

### CalCPA

Yes, however we believe that reinforcement of professional skepticism has been adequately covered in other standards and it becomes redundant.

### CPAA

engagement team should communicate, nor does it explicitly require communication of risks of material misstatement.

Furthermore, we believe that ED-600 should take into consideration that the increasing shift to remote audit may create challenges for auditors in exerting professional scepticism when they have either no, or restricted, access to information and people within the group. We elaborate on this concern in our detailed response to question 7.

We generally agree that ED-600, particularly paragraph 5 as well as paragraphs A9 and A10 appropriately reinforces the exercise of professional scepticism. However, there are some areas where further application material may be helpful. We are concerned that, as the risk-based approach will result in component auditors being engaged in many instances to conduct work on discrete systems, controls, accounts or assertions rather than conducting an audit of the component's entire financial statements, that this potentially will limit their effective exercise of professional scepticism. To address this, we suggest that the

need to communicate relevant aspects of the group engagement team's risk assessment should be required. The ED emphasises the group engagement team's responsibility for the identification and assessment of the risks of material misstatement with the assistance of component auditors, as needed, and the group engagement team's communication of work they require the component auditor to undertake. However, the ED does not raise the benefits of sharing relevant aspects of the risk assessment with the component auditor, particularly when the component auditor is not involved in the risk assessment, to enable more effective exercise of professional scepticism. Paragraph 26 could be broadened to cover communication of identified risks with component auditors when they are not engaged in the risk assessment process. Whilst paragraph 44 details information which the component auditor should communicate to the group engagement team, the ED does not provide the same level of detail in paragraph 43 regarding what the Group

## EFAA

We believe ED-600 appropriately reinforces the exercise of professional skepticism in relation to group financial statements. Nevertheless, we believe it will be difficult for the group engagement team to assess whether component auditors have exercised professional skepticism in practice so the Board might wish to consider providing some examples of the different kinds of biases.

## IBRACON

Yes, the emphasis on professional skepticism is a useful reminder for group audits. However, as mentioned in the response of question 8 below, we believe that the heavy focus on the top down approach can have an unintended consequence of diminishing the professional skepticism by the component auditors.

## ICAS

We welcome reinforcing the need for auditors to exercise professional scepticism.

We would also highlight the recent approval by IESBA of its Role and Mindset revisions to its Code of Ethics. These put in the place the need for all professional accountants to adopt an "inquiring mind". This requirement, therefore, applies to professional accountants who are preparing financial statements and they should not just accept information at face value. The IAASB along with IESBA should highlight this revision to stakeholders in their respective outreach to make clear that the primary responsibility for ensuring that group financial statements present fairly the financial performance and position of an entity sits with the directors. 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 organisations. This will require a holistic approach by the various parties across the corporate reporting ecosystem.

## IIA

Yes. The IIA, as part of the Anti-fraud Collaboration, recently released "Skepticism in Practice," a new report that explores the importance of more critically assessing the potential for fraud and examining some of the biases that can leave organizations blind to deceptive activities. A healthy dose of skepticism is key. The Anti-fraud Collaboration is a cooperative dedicated to enhancing the effectiveness of financial fraud risk management.

## IMCP

ED-600 appropriately address the exercise of professional skepticism in relation to a group audit, however, it would be helpful the development of an appendix or implementation guidance that specifically addresses examples of a group audit such as; a) mandatory rotation of the group audit engagement partner and component partners, and b) extension of random review of non-material components, c) risk assessment evaluation regarding a shared service center or treasury function, in a higher risk jurisdiction, d) Evaluating the findings both individually and collectively, when considering whether there are indicators of potential management bias or fraud.

## MICPA

We are of the view that the requirements and application material of the proposed ISA 600 (Revised) appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements particularly with the introduction of the new “stand back” requirements.

However, the changes in the basis for scoping for components may undermine professional skepticism as component auditors may now only perform the procedures necessary to audit the specified account balances or line items and not give due consideration of the risks relating to the components.

We believe there is therefore a lack of clarity with regard to the identification of components. With the removal of the concept of significant components, there should be practical guidance on how the new risk-based approach under ISA 315 (Revised 2019) in driving the determination of components can be consistently applied and with particular emphasis on the interaction between the group engagement team and the component auditors in the identification process.

## SMPAG

We believe that ED-600 appropriately reinforces the exercise of professional skepticism in relation to an audit of group financial statements while adopting a consistent risk-based approach that is in line with ISA 315 (Revised).

However, the emphasis on the overall role of the GET for audit quality in a group may have unintended consequences of diluting the sense of ownership by component auditors for the judgments and decisions made and on the exercise of professional skepticism.

In addition, implementation guidance on areas of the group audit where professional skepticism may need to be heightened has been proposed as an area where practitioners would welcome further support.

## 8. Academics

### AFAANZ

The exercise of an appropriate level of scepticism is a challenge that confronts auditors performing all audits, not just group audits. We note that improvements introduced in ED-ISQM1 and ED-ISA220 will help auditors meet the requirement to exercise an appropriate level of scepticism in all audits, including group audits. We do note, however, a number of unique characteristics of group audits for which academic research highlights opportunities to improve the proposed standard to reinforce the exercise of professional scepticism in relation to an audit of group financial statements.

Research highlights that, with reference to how their actions may be evaluated by superiors, auditors may be reluctant to act on their questioning mind as the additional work will incur additional costs but may not

(and most likely will not) result in the identification of a misstatement (Brazel et al. 2016; Brazel et al. 2019). This impediment to the exercise of an appropriate level of professional scepticism is termed an 'outcome effect', and may be more pronounced in work undertaken by component auditors. Fee negotiations between the group and component auditor, the specificity with which the group auditor directs what needs to be done by the component (often taking the form of an agreed upon procedures engagement) and the extent to which the component auditor feels a sense of accountability to the group auditor (Downey and Westermann 2020), all lead us to question how sceptical enquiry will be perceived by the component auditor, and the threat that this may pose to the appropriate exercise of professional scepticism in the audit of group financial statements.

With this in mind, we recommend that paragraph A9 be expanded to explicitly recognise the increased threat from outcome effects in the exercise of an appropriate level of professional scepticism by component auditors. We further recommend that paragraph A51 include an acknowledgement that the nature of the direction of component auditors' work can be tailored to take into consideration a need to build in a degree of flexibility that does not overly restrict the nature timing and extent of the procedures component auditors perform, and allows them the flexibility to act on their questioning mindsets.

We note that our comments under Question 1 as they relate to the importance of supporting a team identity and concerns around the authoritative tone in assigning responsibility to address communication and coordination issues, and our recommendations as to changes to the standard that may ameliorate some of the threats to group audit quality, are also relevant here. Research has shown that a supportive partner style and team identity salience are important determinants of the level of professional scepticism exercised by auditors (Stevens et al. 2019).

A large body of research highlights that culture can, and often does, impact auditor judgments (see Nolder and Riley 2014 for a review of this literature) and the exercise of professional scepticism is not immune to the influence of culture (e.g., Saiewitz and Wang 2020; Khan and Harding 2020). We concur with the explicit recognition of cultural influences in paragraph A9. However, we recommend that given the impact of national culture on audit judgments, consideration be given to including an appendix to the proposed standard detailing considerations relating to culture in a group audit setting.

Finally, concerning the impact of cultural differences on auditor scepticism, we note research finding that making auditors aware of the different cultural mindsets can reduce the effects of culture on the exercise of professional scepticism (Saiewitz and Wang 2020), providing additional support for our recommendation that paragraph A51 be further expanded to reinforce the need to be mindful of cultural differences in tailoring the nature of direction, supervision and review.

### **Q3 – Disagree**

#### **4. National Auditing Standard Setters**

##### **CNCC-CSOEC**

We consider that the requirements and application material of ED-600 do not reinforce the exercise of professional skepticism in relation to an audit of group financial statements. Indeed, the ED-600 focuses on a top-down approach, that is, in our view, opposite to a reinforcement of the exercise of professional skepticism.

With a centralised approach, the group auditor will have only one source of information (i.e. group management). He will not be able to corroborate the information obtained with other sources of information (i.e. component auditors), especially when there is a large number of components in several jurisdictions. We

believe that the stand-back at component level is essential to be able to obtain an overview of the entity and to be able to fully exercise the required professional judgment at group level.

We therefore recommend that the IAASB promote a combined approach (top-down and bottom-up approach). Please also refer to question 8.

#### IDW

We recognize the efforts of the IAASB to reinforce the exercise of professional skepticism in relation to an audit of group financial statements as described in the Explanatory Memorandum with the reference to the paragraphs in the draft. However, our responses to Questions 7 and 8 below indicate that the lack of robustness in the requirements as to when component auditors need to be involved, how they should be involved in certain circumstances, the needed involvement of the group engagement team in the work of component auditors, the top-down approach to group audits (including the impression that group engagement teams should specify audit procedures to be performed by component auditors in detail, and the elimination of the concept of significant components based on financial size), are not conducive to reinforcing the exercise of professional judgment and professional skepticism in relation to an audit of group financial statements because, as we point out in our response to Question 8, these issues will likely cause group engagement teams to be less aware of the issues at component level, therefore they will be less able to exercise professional skepticism in an appropriate manner. Consequently, unless our recommendations to the issues addressed in our responses to Questions 7 and 8 are implemented, we believe that the draft will be detrimental to the exercise of professional skepticism in group audits.

#### JICPA

We do not believe that the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements.

There are several descriptions which could cause the misunderstanding that the component auditor has only to follow the instructions of the group engagement team without further consideration.

For example, paragraph A100 states that “the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.” However, it should correspond to a requirement for the component auditor’s responsibility. It is primarily the component auditor’s responsibility to consider the sufficiency and appropriateness of audit evidence obtained, while the consideration is performed based on the group engagement team’s direction, supervision and review, as well as based on two-way communication between the group engagement team and the component auditor. We believe that using the word “may” in this application material does not appropriately reinforce the exercise of professional skepticism in a group audit.

In paragraph A80, there are illustrations of information used to identify the risks of material misstatement of the group financial statements due to fraud, but most of them are related to the entire group, not to individual components. In actual audit practices, however, in many cases the component auditor can identify indications of fraud that may be difficult for the group engagement team to identify at the group level, and the appropriate involvement of the component auditor results in detecting a material misstatement of the group financial statements due to fraud as a result of performing audit procedures for those indications. In this regard, ED-600 does not appropriately emphasize the importance of the component auditor’s responsibility, as a result of the excessive emphasis on the group engagement team’s responsibility. We

therefore believe that ED-600 does not appropriately reinforce the exercise of professional skepticism in relation to a group audit.

See our comments on Question 8(a) below for our suggestions on clarifying the component auditor's responsibility.

#### KSW

We are not convinced that the requirements will significantly enhance the application of professional skepticism, as is not an issue of requirements. The level of professional skepticism depends on the information available to group engagement team and the knowledge of the group. This includes the involvement of component auditors, which will provide a broader and more focused view to the group engagement team especially for large groups operating in various jurisdictions. Therefore, we believe ED-600 should not be discouraging the involvement of component auditors by over-emphasizing the top-down and centralized approach.

#### NBA

We are of the opinion that this question is difficult to answer as this is mainly elaborated in other ISAs. Although it is stated in paragraph A9 that group audits may pose additional challenges also due to biases and cultural influences, this will be difficult to overcome in practice. Especially, it will be difficult for the group engagement team to assess whether component auditors have exercised professional skepticism in practice. We suggest some concrete examples could be outlined as there are different kinds of biases (e.g. confirmation bias, anchoring bias, group thinking etc.).

In the explanatory memorandum paragraph 97 is stated that the new 'stand back' requirements in paragraphs 45-46 and 49-51 of the ED will support the exercise of professional skepticism by the group engagement team. We agree that 'stand back' is valuable. However, we question whether there is a direct link between 'stand back' and professional skepticism.

### 5. Accounting Firms

#### EYG

We have an overall concern that the top-down approach to risk assessment and response in ED-600, coupled with the enhanced group engagement partner responsibilities stemming from proposed ISA 220 (Revised), could have unintended consequences for the exercise of professional judgment and professional skepticism by both the group engagement team and component auditors. Specifically:

We note that greater emphasis is placed on the group engagement partner's responsibilities in ED-600 consistent with the enhanced engagement partner responsibilities in proposed ISA 220 (Revised). In addition, responsibilities for the group engagement team have been strengthened. We strongly agree that all team members are accountable for the quality of their audit work. We are concerned that this shift in ED-600 to a heavily focused top-down approach to the group audit could be perceived as diminishing the responsibilities of component auditors for their work as compared to extant ISA 600. We are very concerned with any risk that component auditors will perceive they have a reduced responsibility for the exercise of professional judgment and professional skepticism because of the enhanced responsibilities of the group engagement partner and team.

Another potential unintended consequence of the heavily focused top-down approach could be that audit work (risk assessment or response) is performed centrally when it would have been more appropriate to



involve component auditors. Because component auditors typically have more in-depth knowledge of the local risks, including fraud risks, component auditors may be more informed and therefore better positioned to identify and assess the risks of material misstatements that are arising from the components and hence exercise professional skepticism more effectively. The component auditors may also be better placed in designing the response to these risks. Refer to Question 8(a) and (c) for further considerations specific to the importance of component auditors when addressing fraud risks.

As a recent illustration of the importance of the involvement of component auditors and maintaining their equal focus on quality, we have observed the changes in operations of group engagement teams over the past few months due to the COVID-19 pandemic. Some of our group engagement teams have adopted a more centralized approach to respond to the travel and access restrictions in place. The feedback received from those teams was that, even though a centralized approach was possible on certain areas of the group audit, to be reliable, the design and results of these procedures often had to be corroborated and supplemented by the component auditors' local knowledge (e.g., knowledge on whether any changes in the component's operations, such as its internal control processes; knowledge about relevant changes in the local environment, such as measures taken by government, including tax cuts, furlough schemes or rapid changes in legislation). We believe the balance between a top-down and bottom-up approach is a key factor in driving audit quality in a group audit. Further considerations on this matter are included in our response to Question 8.

#### GT

The requirements in ED-600 in relation to the application of professional skepticism focus largely on the assessment of whether sufficient appropriate audit evidence has been obtained with which to support the group audit opinion, including audit evidence obtained from component auditors. The focus of the related application material, however, is largely on existing guidance, for example, that in ISA 220 (Revised), ISA 315 (Revised) and ISA 540 (Revised), by way of references to specific paragraphs in those standards. We are of the view that this will not significantly enhance the application of professional skepticism in a group audit. We recommend that instead of merely referencing back to other ISAs, additional application material is included, providing examples of the circumstances where professional skepticism may be relevant in group audit. These examples could include a group audit engagement where the consolidated entity is an overly complex structure, which in and of itself, may be an indicator of fraud, and which also may require an understanding of matters such as the cash flows between components or subsidiaries within the group and, where intergroup transactions occur, the related transfer pricing agreements. A contrasting example of a group audit engagement where the consolidated entity is a simple structure that comprises few components and minimal intra-group transactions could also be included.

Additionally, further guidance on how the application of professional skepticism can be evidenced in a group engagement team's audit file would be helpful.

#### MAZ

No as it is not sufficiently specific to group audits. The guidance does not address the increased complexity of exercising professional skepticism when many components are involved. Additional application guidance addressing how the group engagement team and the component auditors should interact to ensure the proper exercise of professional skepticism, including the stand back requirement, we believe should increase audit quality.

We consider that a centralized approach without involving any component auditors will not increase professional skepticism; on the contrary, the group auditor will have only one source of information (i.e. group's management) and will not be able to corroborate the collected information with other sources of information (i.e. component's auditors)."

## MAZUSA

Response: The requirements of ED-600, and its application and other explanatory material, intend to foster professional skepticism, including reference in some cases to other ISA standards. Despite the different paragraphs noted in the background section that address professional skepticism, including 49-51 and A9-A10, we are left wanting in the context of a group audit for more application material with respect to the interaction between group and component auditors and how the group engagement team leverages the professional skepticism of component auditors.

## PKF

While the application material of ED-600 includes guidance on the exercise of professional skepticism, there is no explicit reference to professional skepticism in ED-600 beyond its introductory paragraphs. Additionally, we are concerned that the cross-references in ED-600 to other ISAs may not be the most effective method of encouraging the auditor to consider how professional skepticism can be exercised on a group audit. This concern is somewhat mitigated by those requirements within ED-600 on matters that are connected to the exercise of professional skepticism, for example those requirements relating to indicators management bias.

Overall, we believe that the balance could be improved by incorporating more explicit reference to the exercise of professional skepticism directly within the main body of requirements in ED-600. We encourage the taskforce to reconsider how to properly emphasize the importance of exercising professional skepticism within appropriate sections of ED-600 such as those relating to Component Auditors, Communications with Management and those Charged with Governance (paragraphs 43-46), or Documentation (paragraph 57).

## PwC

Professional scepticism and professional judgement are essential to any audit, and the emphasis placed on them throughout the standard underlines their importance. For example, the stand-back requirements (paras. 45-46 and 49-51) provide useful milestones to evaluating the sufficiency of audit evidence.

The change in the overall approach to scoping the group engagement and risk assessment, and the greater flexibility that is being afforded to group engagement teams in this regard, may pose risks to professional scepticism if not complemented by the frameworks that we describe in our cover letter to drive consistency in both the evaluation of the sufficiency and appropriateness of work performed across the group and the appropriate involvement of component auditors based on the nature and circumstances of the group engagement.

There is a risk, for example, of group engagement teams making judgements about risks and responses without having a sufficient basis for those judgements. A potentially more significant consequence might be the possible behavioural impact on component auditors. The switch away from requiring an audit of individually financially significant components may increasingly result in group engagement teams choosing to instruct component auditors to perform specified procedures. While that may be appropriate, in some circumstances the risks at certain components may be better addressed by a broader response. As described in our cover letter and in more detail in response to question 8 below, we believe the standard

should provide factors that guide group engagement teams in making judgements about when performing a full-scope audit of a component may be appropriate in the circumstances.

The proposed approach may result in less work being performed than may be appropriate in the circumstances. In addition, under those circumstances, when component auditors are not also engaged for statutory audit purposes, there is a risk that they may have less focus on considering the nature of the risks and suitability of the further audit procedures to be performed in relation to the financial information of the component. That may act as an inhibitor on the exercise of professional scepticism and result in a greater susceptibility of potential risks of material misstatement remaining unidentified.

It is therefore important that the standard encourages the communication by component auditors of any specific additional areas of higher assessed risks of material misstatement that may be relevant to the group audit, even if they relate to financial information not within the scope of the work the component auditor was instructed to perform. We recommend that paragraph 44 include an additional communication as to “Whether the component auditor has identified additional specific areas of higher assessed risks of material misstatement of the group financial statements, due to fraud or error, in the component, and any other matters identified as a result of the work performed by the component auditor that may suggest a revision of the assessed risks of material misstatement of the group financial statements may be necessary.”

This potential switch towards a much greater predominance of specified procedures, with the potential drawbacks we describe, may also be promulgated by commercial pressures - whether internal to a firm or from group management - resulting in an overall reduction in the amount of audit work being conducted. That would not be in the interests of audit quality. While a more targeted approach to performing audit procedures is a natural consequence of a move to a top-down risk-based audit, the factors for engagement teams to consider in determining when a full-scope audit would be appropriate in the circumstances are, we believe, an important safeguard against insufficient work being performed.

## 7. Member Bodies and Other Professional Organizations

### AE

There is little harm in continuing to emphasise professional scepticism, however, we are not convinced that the requirements alone will significantly enhance its application. The stand back requirements referred at paragraph 97 of the Explanatory Memorandum, for instance already exist in the extant ISA 600.

On the other hand, we acknowledge that professional scepticism is not an issue that can fully be addressed by setting requirements in ISAs. In this regard, we believe the revised ISA 600 should focus on group audit specifics, such as considerations related to unusual group structures and deciding on whether to involve the component auditors or not.

In addition to pure mind-set, the level of professional scepticism that can be applied depends to some extent on the information available to the audit team. Generally, the involvement of component auditors is likely to provide a broader view to the group engagement team, especially for large groups operating in various jurisdictions. Depending on facts and circumstances, a centralized approach without involving any component auditors might limit the application of professional scepticism and thus hamper audit quality. The group engagement team could have limited sources of information via the group's management without being able to corroborate the collected information with other sources of information via the component auditors. We suggest there is value in including this concept within the standard and linking it to the overall strategy decision regarding the use of component auditors. This is a good example of the benefits of using component auditors and the value of both top-down and bottom-up approaches to audit strategy.

## FAR

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

## ICAEW

While ED-600 is intended to address special considerations relating to group audits only and professional scepticism is reinforced through linkages to, and the requirements of, other ISAs, we are not convinced that the requirements referred to in the explanatory memorandum will significantly enhance professional scepticism on group audits. The stand back requirement is already in extant ISA 600.

We would encourage IAASB to consider whether there is scope for further guidance highlighting potential trigger points in relation to scepticism on group audits, for example, unusual or complex group structures which might increase the potential for fraud.

## IPA

No, the material in the ED does not particularly reinforce the exercise of professional scepticism as it is generic in nature (there are only two limited examples of professional scepticism issues applicable to group engagements) and largely consists of cross-references to other standards.

## NRF

Trying to enforce professional skepticism through standard-setting is a challenge. A requirement to exercise professional skepticism is, in itself, not sufficient. In addition to training sessions, examples of situations and actions where the exercise of professional skepticism might be especially important, are necessary. Therefore, the references in paragraphs A9-A10 to examples in other ISAs and, in particular, concrete examples focused on group audits situations, are helpful. At the same time, this application material is related to a paragraph in the introduction section, why we are concerned that it might be overlooked.

With regard to the requirements in paragraphs 49-51 and 45-46 and the related application material, we believe that the references to professional skepticism and the need to “stand back” as explained in para 96-97 (p. 27-28 in the ED), could be further reflected and clarified in the requirements and application material themselves.

The level of professional skepticism that can be exercised, depends on the information that is available to the GET. Therefore, we believe that the requirements and application material should not only focus on the top-down approach, but also address the benefits of involving component auditors, with their more specific in-depth knowledge, as part of the information base, when exercising professional skepticism.

## SAICA

The IAASB Glossary of Terms’ definition of professional skepticism is, “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.”

Globally, the auditing profession is going through, what is arguably, the greatest reputational crisis of all time. The interconnectedness of the profession globally means that a corporate failure in one jurisdiction is viewed as a corporate failure in the profession as a whole and brings the auditing profession into the spotlight globally. Therefore, the application of professional skepticism is fundamental in the audit process

and in ensuring high audit quality. There is a need to reinforce the importance of professional skepticism, especially in the context of group audits.

In this regard, SAICA is of the opinion that professional skepticism can be further reinforced in the main paragraphs in ED-600, instead of the application paragraphs. The application of professional skepticism in group audit engagements can be pin-pointed to certain transactions such as intra-group transactions, transactions that are not at arms-length and related party transactions, therefore, the requirement to apply professional skepticism should be heightened in these situations.

Another situation where professional skepticism should be heightened in a group scenario is where the audit client insists on having multiple group auditors, including joint audit arrangements, and there is no clear rationale for splitting the group audit between numerous firms. Although joint audits are being considered globally to address issues of market concentration in the auditing profession, there need to be valid reasons for appointing joint auditors and/or multiple auditors and audit quality should not be compromised. This is another example that could be included in the application paragraphs (A9-A10) to reinforce the exercise of professional skepticism in a group context where joint auditors or multiple auditors are involved.

#### WPK

No. We believe that a centralised risk assessment (bottom-up approach) that informs a group engagement team about potential risks at group level collected by several independent component auditors at the operational level of the group (i.e. at the level of individual components) is more in line with the principles of professional skepticism in comparison to a centralised risk assessment that relies primarily on information that is held at the head quarter level (including group management and those charged with governance of the group). We believe that a decentralised risk assessment is particularly important, the larger, the more international or the more heterogeneous the group is. We emphasise again that ED-600 does not include a minimum level of a decentralised risk assessment and in that regard falls significantly short of extant ISA 600.

### Q3 – 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

No Comment

**CPAB**

No Comment

**CSA**

No Comment

**IAASA**

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