

# Supplement A.7 to Agenda Item 4

## Questions 12 – Are there any other matters you would like to raise in relation to ED-600?

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

### Q12 – Comments

#### 1. Monitoring Group

##### BCBS

We have the following additional suggestion to enhance the standard:

ED-600.41: the requirements could be strengthened by adding a new paragraph 41(c) to require that the component auditor report any breaches in laws and regulations of which they become aware.

We have the following additional drafting suggestions or matters of clarity to the Application material:

ED-600 paragraphs 32 & A82 to A84: the application material could recognise explicitly that the group engagement team may need to involve a number of component auditors in assessing the significance of a single risk, and the group engagement team may therefore need to coordinate the risk assessment.

ED-600 paragraph A56: the application material within the bullet points could usefully also highlight that the auditor should gain an understanding of the location of significant service centres within the group, as these may be a key area of audit focus.

ED-600 paragraph A56: the application material could usefully highlight the need to understand a group's booking arrangements and approaches to risk management as they add complexity to the group and therefore increase the financial statements' susceptibility to material misstatements. For example, within a banking group transactions may be entered into in one jurisdiction but booked to the balance sheet of an entity in a different jurisdiction. The group engagement team may therefore need to use different component auditors in respect of different parts of the transaction. The group engagement team will need to assess the risk and communicate it to the component auditors. Alternatively, a banking group may book transactions locally and carry out treasury or hedging activities within a single group entity. This may result in intra-group transactions that will need to be adjusted for appropriately upon consolidation.

ED-600 paragraph A72: the application material could helpfully identify that certain sectors (eg banking) may be particularly susceptible to the risks highlighted.

ED-600 paragraphs A103 to 105: the application material could promote further professional scepticism by providing guidance that, even if there is no intention to use such work, the group engagement team should consider whether there is any contradictory information that might prompt the group engagement team to undertake further procedures

##### IAIS

Although the IAIS is supportive of the proposals in the consultation, we do have suggested improvements that would be useful for audits, including for those in the insurance sector.

In insurance group audits, experts are utilised to opine on the reserves, and it can be very important for auditors to be knowledgeable on the laws and regulations of the various jurisdictions where the group does

business. The IAIS recommends that ISA 600 includes more guidance on how ISA 620 Using the Work of an Auditor's Expert and ISA 220 should be considered in group audits. Additionally, the IAASB may want to consider providing further guidance on other issues that may provide additional challenges or be particularly relevant in a group context. Such issues may include remote auditing, joint audits in a group context and how to avoid potential quality differences in the work carried out by group and component auditors, whether these are within the same audit network or not.

With respect to current and former cases of fraud and abuse, we welcome the number of references to ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements in ED-600. Nevertheless, we would welcome discussing the topic of fraud with the IAASB in the future.

## IFIAR

### Implementation guidance

The IAASB should consider how to address instances that may arise in the first year of implementation where GETs and the firm rely on policies and procedures at a network firm that have been implemented but not yet evaluated in accordance with the requirements of new ISQM1. We recommend including guidance and/or application material in conjunction with ISQM 1, including any responses/policies and procedures that may be relevant that the GET relied on.

## IOSCO

### Communications from Component Auditors and the Use of Opinions, Including in Letterbox Audits Situations

While we understand that in practice the auditor generally provides a deliverable based on the nature of the engagement, we believe the current construct of paragraph 44 (h) of the Paper may be confusing with respect to whether all three deliverables (findings, conclusions and opinions) are required to be provided by the component auditor for one engagement.

Paragraph 44 (h) states that: "The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include:

(h) The component auditor's overall findings, conclusions or opinion."

We believe practice issues have arisen, in part, as a result of the standard allowing component auditors to provide findings, conclusions or opinions without defining these terms. What does it mean for an auditor to provide each of these, and when is the use of each appropriate? The Board should review and provide guidance in the Application Material on how the terms "findings", "conclusions", as well as "opinions" or the memos used to communicate these outputs, are meant to be applied based upon the type of engagement the group auditor directs the component auditor to perform, and also clarify which of the related deliverables expected of the component auditor.

Additionally, we are concerned where the component auditor only provides an "opinion" or a memo on their work to the group engagement partner. We believe this could encourage the group engagement partner to place undue reliance upon such an opinion or memo for purposes of the group audit without obtaining sufficient appropriate audit evidence regarding the financial information and other typical areas of audit findings (e.g., function of internal controls, passed financial statement adjustments, and potential auditor

independence issues) of the components and having performed appropriate review of the component auditor's workpapers.

In addition, the use of an opinion by the component auditor seems inconsistent with (1) the fact that the component auditor is a member of the group engagement team and (2) the general intent of the Paper that portrays the work of the component auditor as a collection of specified procedures. We believe the component auditor should provide a report of its findings or the results of applying procedures. These reports or results could then be used by the group engagement partner (along with audit evidence from all the other audit work performed) to develop an opinion on the group financial statements as a whole.

We believe the Board should further consider what the impact is on audit quality if a component auditor only provides opinions to the group engagement team consistent with paragraph 44(h) of the Paper. For example, with respect to opinions, as highlighted in our concerns above, the group engagement team should not consider an "opinion" to be the only audit evidence that eliminates the need for the group engagement team to be sufficiently involved with the work of the component auditor and to obtain sufficient appropriate audit evidence regarding the financial information of the components. We believe the Board should consider whether or not receipt of an opinion may give rise to unintended consequences with respect to the component and group auditor. If opinions are retained in the Paper, then it should be emphasized in the requirements that the group auditor cannot rely on the opinion provided by the component auditor as the sole form of audit evidence over that component. Where an opinion is the only form of communication due to documentation restrictions, please refer to our comments under the section entitled "Documentation and Access Restrictions" above.

Relatedly, we are of the view that the Paper does not fully convey or discuss in sufficient detail the unique challenges that can exist where the engagement partner is not located in the jurisdiction where the majority of the audit work is performed (referred to by some as audits of letterbox companies). We believe the Paper should clearly state whether it covers letterbox audits or not, and if it does, how this guidance applies to the group auditor.

### 3. Regulators and Audit Oversight Authorities

#### CEAOB

##### Consistency with European provisions

We draw the IAASB's attention to the provisions that auditors are required to observe according to the European Union's legislation applicable to them in the areas covered by ED 600. Any requirements in the standard which would be inconsistent with the legal framework in force would impair the application of ED 600 in countries applying the European Union's legislation.

In particular we want to highlight the specific provisions in relation to group audit procedures to be performed under Article 27 of Directive 2006/43/EC (Audit Directive):

The group auditor's full responsibility for the audit report issued on the consolidated financial statements;

An evaluation by the group auditor of the audit work performed by the component auditor(s) for the purpose of the group audit is required;

Nature, timing and extent of work performed by component auditors need to be documented in the group audit file;

Requirement to document the group auditor's review of relevant parts of the audit work performed by component auditors;

The documentation retained by the group auditor shall be sufficient to enable the competent authority to review the work of the group auditor;

Group auditor to request the agreement of the component auditors to the transfer of relevant documentation during the conduct of the audit;

Group auditor to take appropriate measures and inform the competent authority in case of inability to review component auditors' work performed for the purpose of the group audit;

Retaining any working papers relevant to the group audit in the audit file or obtaining the component auditor's agreement to give unrestricted access;

Group auditor to undertake procedures to gain access to audit documentation and evidence thereof.

Furthermore, to respond to the needs of jurisdictions in which joint audit is requested or allowed, we draw the IAASB's attention to the need for ISA 600 to take into account or be compatible with situations where the group audit is performed by joint auditors, since this is allowed by European law. We welcome the conforming amendment of ISA 220 paragraph A15A but we suggest a further reference to joint audit be made at the beginning of the standard, by reference to ISA 220 if needed.

Post implementation review of the revised standard

We also encourage the IAASB, following completion of this project, to gather stakeholder input via a post-implementation review in order to assess whether the changes have achieved the desired effects and how the shift in mind-set was embraced (e.g. whether the goals have been met and whether some challenges remain).

Identifying and Assessing the Risks of Material Misstatement

Extant ISA 600 addresses the consolidation process which is one of the areas where there have been recurring inspection findings by a number of CEA OB members. The topic of consolidation is highly important. The auditor should take the consolidation process into account to understand the company and its financial and operational processes as well as when assessing identified risks of material misstatement. Hence, further emphasis on the consolidation process could be useful in the Identifying and Assessing the Risks of Material Misstatement section of ED 600.

Additionally, we note that fraud can occur via consolidation adjustments. We are of the view that reference to fraud risks and tendencies for fraud when addressing consolidation would be useful beyond paragraph A80. Hence, we also propose including an explicit reference to ISA 240 in the Identifying and Assessing the Risks of Material Misstatement section of ED 600 when addressing consolidation.

## **CPAB**

Consideration of fraud in the audit of group financial statements

Further guidance over and above paragraphs 34 and 35 should be included given the importance of the consolidation process to the group financial statements. Frauds can be perpetrated via consolidation and other adjustments. Therefore, we recommend including additional references to risks of material misstatement due to fraud, including increased susceptibility to fraud in relation to the consolidation process.

In addition, the guidance in A 80 that the auditor or group engagement partner may consider whether there are components for which the risks of material misstatement due to fraud is higher should be a requirement.

#### Implementation guidance

The IAASB should consider how to address instances that may arise in the first year of implementation where the group engagement team and the firm rely on policies and procedures at a network firm that have been implemented but responses not yet evaluated. We recommend including guidance and/or application material in conjunction with ISQM 1, including any relevant responses and policies that the group engagement team relied on.

### CSA

#### Fraud and the consolidation process

Recent corporate failures have emphasized the importance of developing auditing standards that will result in the auditor performing procedures to minimize the risk of failing to detect fraud. Group audits that involve multiple international locations can increase this risk, and the consolidation process should include procedures that take fraud into account to a greater extent. The proposed amendments would be improved with the addition of further references to risks of material misstatement due to fraud in relation to the consolidation process.

### IAASA

#### Consistency with European provisions

We draw the IAASB's attention to the provisions of European Union legislation applicable to auditors in Ireland and throughout the EU in areas covered by ED 600. Any requirements which are inconsistent with the legal framework in force would impair the application of the revised ISA 600 in Ireland and other countries applying European Union legislation.

In particular we want to highlight the specific provisions in relation to group audit procedures to be performed under Article 27 of Directive 2006/43/EC (Audit Directive):

The group auditor's full responsibility for the audit report issued on the consolidated financial statements;

An evaluation by the group auditor of the audit work performed by the component auditor(s) for the purpose of the group audit is required;

Nature, timing and extent of work performed by component auditors needs to be documented in the group audit file;

Requirement to document the group auditor's review of relevant parts of the audit work performed by component auditors;

The documentation retained by the group auditor shall be sufficient to enable the competent authority to review the work of the group auditor;

Group auditor to request the agreement of the component auditors to the transfer of relevant documentation during the conduct of the audit;

Group auditor to take appropriate measures and inform the competent authority if unable to review component auditors' work performed for the purpose of the group audit;

Retaining any working papers relevant to the group audit in the audit file or obtaining the component auditor's agreement to give unrestricted access; and

Group auditor to undertake procedures to gain access to audit documentation and evidence thereof.

Post implementation review of the revised standard

We also encourage the IAASB, following completion of this project, to gather stakeholder input via a post-implementation review in order to assess whether the changes have achieved the desired effects and how the shift in mind-set was embraced (e.g. whether the goals have been met and whether some challenges remain).

Identifying and Assessing the Risks of Material Misstatement

Extant ISA 600 addresses the consolidation process which is one of the areas where there have been recurring inspection findings by a number of members of the Committee of European Auditing Oversight Bodies ("CEAOB"), of which IAASA is a member. The topic of consolidation is very important. The auditor should take the consolidation process into account to understand the company and its financial and operational processes, as well as when assessing identified risks of material misstatement. Hence, further emphasis on the consolidation process could be useful in the Identifying and Assessing the Risks of Material Misstatement section of ED 600.

Additionally, we note that fraud can occur via consolidation adjustments. We are of the view that reference to fraud risks and tendencies for fraud when addressing consolidation would be useful beyond paragraph A80. Hence, we also suggest including an explicit reference to ISA 240 in the Identifying and Assessing the Risks of Material Misstatement section of ED 600 when addressing consolidation.

## IRBA

The IRBA has recently finalised its project on guidance in the performance of a joint audit. In drafting the guidance, heavy reliance was placed on the principle that ISA 600 references joint auditors in the definitions section as follows: "Group engagement partner – The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial statements that is issued on behalf of the firm. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor." Other than the definition of group engagement partner in the ISAs' Glossary of Terms, there are no other references to joint auditors in the ISAs. It is thus surprising that, as part of the conforming and consequential amendments arising from ED-600, the underlined section has been moved to the application and other explanatory material section of Proposed ISA 220 – Quality Management for an Audit of Financial Statements. We strongly recommend that the underlined section be placed within the definitions section of ISA 220, as the concept is too important to be placed in the application and explanatory material.

In addition to our comments below, we believe that auditors must be encouraged to do more, with regard to fraud risk identification in a group audit, through conducting the overall risk assessment (as required in ISA 315 (Revised 2019)) and fraud risk assessment (required in ISA 240) in an integrated manner. This is even more critical when we consider the recent high-profile corporate failures in some jurisdictions as well as the expectation gap between the work performed by auditors and what users expect and perceive to be the auditor's responsibilities in relation to fraud in an audit of financial statements.

## NASBA

NASBA would like to offer comments on the following matters:

Paragraph A34 states in evaluating whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary, the group engagement team may obtain an understanding of whether the group engagement team will have unrestricted access to the component auditor, including relevant audit documentation sought by the group engagement team. The language “may obtain” is permissive and not obligatory. There should be an understanding at the outset about the ability to have unrestricted access to the component auditor. Otherwise, at some point during the audit, the group engagement partner may realize that restrictions on access that were not anticipated at the outset of the engagement will have a material negative impact on the group audit. We recommend that obtaining an understanding at the outset of the engagement be made mandatory.

Paragraph 45 states that “...the group engagement team shall: ... (b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor’s audit documentation...” Including “the extent to which” means that the review, if any review is needed, can be of the entire documentation or only parts of it. We recommend deletion of the phrase “parts of” from paragraph 45.

## UKFRC

Using the in-depth knowledge of CAs in the risk assessment process

We do not believe that it is clear that where the GET plans and performs risk assessment procedures but allocates the design and performance of further audit procedures to CAs, that, whilst implicit, the GET would discuss the findings from the risk assessment process with the CA. This would be particularly important where the component is also an entity of the group subject to audit for statutory or other reasons, and the CA is the statutory auditor of that entity.

Absent this material, we do not believe the requirements or application material deliver the desired outcome that the GET utilises the deeper skills and experience of the CA in drawing appropriate conclusions from the risk assessment process. We recommend enhancing the requirements and application material in this regard, possibly in line with ISA 315.A42 that addresses the importance of the engagement team discussion. We have also included suggested wording in Appendix 2 to this letter.

Sampling considerations when auditing multilocation components

We recommend including additional application material or implementation guidance to address the challenges the engagement team may encounter when audit procedures are performed on classes of transactions, account balances or disclosures that are disaggregated across components in multiple locations. In particular, when auditing multilocation components, the engagement team may face additional sampling considerations beyond those encountered when applying audit sampling to a single population at a centralised location.

Cash and cash equivalents

During the course of our outreach we heard from a number of stakeholders, particularly investors, who believed that ED-600 should contain material which specifically addresses the audit of group cash and cash equivalents, and the increased opportunity for misappropriation, particularly where cash transfers regularly occur between group entities, or where there are unusual cash transfers to newly incorporated entities. We believe this material could be incorporated into Appendix 4 of ED-600 and have included suggested wording in Appendix 2 to this letter.



### Fraud and the consolidation process

As briefly recognised in the fourth bullet of ED-A80, fraud can be perpetrated through the consolidation and other adjustments. However, the guidance in this area is limited. In finalising the standard, we recommend the inclusion of additional application material to address the increased susceptibility to fraud in relation to the consolidation process.

### In-person communications with CAs and visits to components

During the course of our outreach, some stakeholders suggested that ED-600 should include a requirement for the group engagement partner, or a key member of the GET, to always visit a component. Some felt this was an important factor in achieving robust and effective communications with the CA or local management. We support the position taken in the ED that this remains a matter for the judgement of the GET. The IAASB may wish to include examples of factors that the engagement team may take into account when determining whether a visit to a component is appropriate, or when in person communication with CAs is more appropriate. We have included an illustrative example in Appendix 2 to this letter.

## 4. National Auditing Standard Setters

### AICPA

#### Communicating Concerns About the Quality of the Component Auditor's Work

Paragraph 56(b) requires the group engagement team to communicate with those charged with governance of the group “[i]nstances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern.” We recommend that this paragraph be either (1) deleted because if the group engagement team had concerns, but had taken the necessary and appropriate action to address the facts and circumstances giving rise to the initial concerns, communication would not be necessary, or (2) moved to application material and reworded as a communication the group engagement team “may consider.”

#### Communicating Deficiencies in Internal Control

Paragraph 53 indicates that in making the determination about which deficiencies in the group's system of internal control should be communicated to those charged with governance of the group and group management, the “group engagement team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors.” This implies some optionality about which deficiencies in internal control are to be communicated. ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, specifies which deficiencies are to be communicated and to whom they should be communicated. Therefore, the second sentence should be clarified to align with the requirements in ISA 265.

### AUASB

Paragraph 38: The AUASB notes that the terminology of higher assessed risks of material misstatement is not consistent with ISA 315. The term ‘higher’ in ISA 315 is associated with the spectrum of inherent risk. The AUASB suggests that this sentence is revisited.

Paragraph 44(e): The AUASB notes that communication of any differences, appears to have no minimum threshold. The AUASB suggests that this threshold is revisited.



The AUASB would like to see a separate section in the introduction or in application material that deals with special considerations for the public sector.

The Explanatory Memorandum suggests in some paragraphs (for example, paragraphs 25 and 77) that guidance will be provided in the form of FAQs or part of the implementation support materials. Overall, we support the concept of providing additional guidance to auditors as this is beneficial during practical implementation and promotes consistency, however we suggest that the IAASB reassesses the appropriate location for guidance and implementation support materials. We highlight that FAQs and implementation support materials serve a purpose and are appropriate in some circumstances, however it is highly likely that auditors and other stakeholders do not access this information if it is residing outside the standard, and it may not be used in the manner expected or intended, or considered as important or form part of the formal guidance when applying the standard. This is particularly important where matters giving rise to the need to have additional guidance are issues auditors would be dealing with on a regular basis as part of practically applying the standard.

### CNCC-CSOEC

We have a comment on the positioning of the ISA 600 in the handbook. The extant ISA 600 is part of section 6 of the handbook entitled “using the work of others”. With the change in the standard, we consider that the ED-600 should be Included In section 3 of the handbook, entitled “risk assessment and response to assessed risks”. Indeed, the ED-600 appears more as a core auditing standard, i.e. an audit approach for entities with a consolidation process (which may or may not be a group) rather than a standard on using the work of others.

### HKICPA

#### ISAs 600 series

The ISAs 600 series are intended to cover “using the work of others” in an audit of financial statements. For instance, ISA 610 (Revised 2013) addresses using the work of internal auditors while ISA 620 addresses using the work of an auditor’s expert in an audit of financial statements.

ED-600 clarifies the role and responsibilities of a group engagement partner and the group engagement team in a group audit engagement, particularly their involvement throughout the group audit. It also clarifies how other ISAs are to be applied in a group audit engagement. In substance, ED-600 goes beyond “using the work of a component auditor” – it covers audit evidence required in a group audit. With that, we recommend the IAASB to re-consider whether ED-600 is best placed under the ISAs 600 series.

### ICAI

#### Auditor’s Report

52. The auditor’s report on the group financial statements shall not refer to a component auditor, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor’s report shall indicate that the reference does not diminish the group engagement partner’s or the group engagement partner’s firm’s responsibility for the group audit opinion. (Ref: Para. A117–A118)

Our Views:

As per paragraph 52, group auditor is not allowed to make reference to component auditors in his audit report. However, In India, group auditor is permitted to make reference to the work done by component auditor in his audit report. Such reference is made by including an “other matter” paragraph in the audit report.

The Code of Ethics issued by ICAI also prescribes that the auditor can rely on the work of another auditor without referring to his working papers.

## IDW

As an international standard setter, the IAASB needs to consider the economic and market impact of its proposals and whether these impacts may lead to undesirable consequences or consequences that are inconsistent with the political policies of the jurisdictions affected.

When extant ISA 600 was being developed, it went through three exposure drafts because it was so difficult to find solutions that did not have undesirable consequences and consequences that are inconsistent with the policies of the jurisdictions affected. In particular, a prime aim of extant ISA 600 was to ensure that group engagement teams are not unduly hindered in using the work of component auditors from other firms and networks as long as the work performed by component auditors is in accordance with the ISAs. This aim was consistent with the policies of the European Commission, national governments in the EU and national regulators – policies which were established to help ensure that competition for the work of component auditors between firms within a national market are not based on membership in a network alone. Furthermore, these policies were designed to help ensure that small and medium-sized practices (SMPs) are not unduly disadvantaged in the market for the work of component auditors, which is often inextricably linked to the competition for work on audits of component financial statements, often performed for statutory, but also performed for other, reasons. The objective of those policies was, and continues to be, to help prevent further concentration in the audit market.

We believe that the proposals in the draft will not only be detrimental to audit quality for group audits but will also have a negative impact on the audit market. In particular, the top-down, detailed, risk-based approach to be applied by the group engagement team in the context of the granular risk assessment required by ISA 315 (Revised 2019) and ISA 540 (Revised), and the detailed responses required in ISA 540 (Revised), will lead to group engagement teams seeking to perform the audit work themselves rather than to use the work of component auditors (see our general response to Question 8). When group engagement teams do use component auditors, the need for granular direction, supervision and review and the resultant detailed communication will lead group engagement teams to chose component auditors from the same firm or network because those component auditors are subject to the same or similar quality management, and use the same or similar audit methodologies and tools. This would inevitably lead to greater concentration not only in the work for component auditors, but also lead to greater concentration for other work at those components, such as for the audit of the financial statements of components for statutory or other reasons. These effects will be exacerbated through the replacement of required full-scope audits of component financial information for components that are significant because of their financial size with a purely risk-based approach.

Furthermore, the noted “race to the bottom” in specified procedures at component level as described in our general response to Question 8 above will cause less full-scope audits to be performed by component auditors at components. This will in turn likely cause the synergies between full-scope audits of the financial information of components for purposes of group audits and the audits of financial statements for statutory or other reasons to decline considerably, which means that there will be a shift in costs from group

engagement teams to component auditors performing audits for statutory or other reasons. While such a cost-shift might be justified if audit quality were to be improved for group audits through the approach in the draft, given our comments that the approach taken in the draft will often lead to a decrease in quality, we believe such cost-shifts are not justified.

For these reasons, the proposals in the draft are not in consonance with policies in the EU and national governments and regulators that seek to prevent further concentration in the audit market and may be viewed as anti-competitive.

## JICPA

### Paragraph A88

This paragraph provides an illustration for determining that the financial information of several components can be considered as one population, but it is difficult to understand from the following perspectives, so we believe additional explanations are necessary.

Based on the description in paragraph A5, those entities are considered as a single component in the first place since the risks of material misstatement and systems of internal control are common among the entities in the case of paragraph A88.

There is a wide range of interpretations about what kind of transactions we consider to be “homogenous,” so we are concerned about confusion.

### Paragraph A89

This paragraph states “the group engagement team may have identified a significant class of transactions, account balance or disclosure in the group financial statements that comprises classes of transactions, account balances or disclosures at many entities and business units, none of which individually result in a risk of material misstatement at the group financial statement level.” In this case, it is suggested that the engagement team perform audit procedures at selected components. However, practical guidance is necessary about which components should be selected specifically.

### Paragraph A91

From the perspective of responses to risks of material misstatement due to fraud, considering the description of ISA 240 paragraph 30(c), which has been referred from ED-600 paragraph A91, “unpredictability” means what the entity does not predict. We believe that “the extent to which the group engagement team is involved in the work” is not an appropriate illustration.

### Paragraphs A96-101

Considering paragraphs 29 and A52-53 of the extant ISA 600, the extent to which the group engagement team is involved in the work performed by the component auditors will differ between significant components and other components. Similarly, we suggest that ED-600 also include an illustration showing that the extent to which the group engagement team is involved in the work performed by the component auditors differs, depending on the extent to which a component's financial information affects the group audit. For example, illustrations in the following cases may be useful.

Identifying a significant risk of the group financial statements in the financial information of a component

Financial information of a particular component constitutes a significant portion of the group financial statements

### Paragraph A97

Paragraph A97 suggests three ways of component auditor involvement (i.e., (i) designing and performing further audit procedures on the entire financial information of the component, (ii) designing and performing further audit procedures on one or more classes of transactions, account balances or disclosures, (iii) performing specific further audit procedures as identified and communicated by the group engagement team). Depending on the ways, the communication between the group engagement team and the component auditors should be different in nature. Also, in the extant ISA 600, depending on whether a component is a significant component or not, the communication with the component auditor should differ. We therefore suggest adding explicit explanations about the differences in communication, depending on how the component auditor is involved and how significant the component is.

### Paragraph 9(j)

The description after “who are responsible for” in the definition of the group engagement team states the roles of the group engagement team, not the definition itself. For example, it seems to suggest that individuals who are members of the parent company audit team but are not involved in any of these three areas (i.e., (i) Establishing the overall group audit strategy and audit plan, (ii) Directing and supervising component auditors and reviewing their work, or (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements) are not the group engagement team members, but we believe this is not appropriate.

### Paragraph 56(c)

While any limitations to the scope of the group audit are required to be communicated with those charged with governance, such as restrictions on access to people or information, we believe that practical guidance is needed on what is to be communicated, and to what extent, in practice.

### Paragraph A113

When the group engagement team reviews the component auditor’s audit documentation, paragraph A113 suggests factors affecting the nature, timing and extent of the review; we suggest clarifying the extent to which the review should be performed in the first place. Otherwise, the scope of the audit documentation, which is subject to the group engagement team’s review, may be expanded endlessly, or the component auditors may always be required to prepare their audit documentation in languages that can be understood by the group engagement team, both of which would be enormously burdensome.

## MIA

### Communications

ED-600 places additional emphasis on the importance of two-way communication between the GET and component auditors, which includes matters relevant to risk assessment and this is helpful to assist the GET to communicate and involve component auditors in all the phases of the audit.

### International Consensus

We would encourage the IAASB to work closely with the Public Company Accounting Oversight Board (PCAOB) to ensure that ED-600 is internationally harmonious. It is positive and in the public interest that the IAASB and PCAOB take a relatively similar approach in an audit of group financial statements.

### Determination of components with higher assessed risks of material misstatement

In developing ED-600, the AASB is of the view that the IAASB will need to evaluate the implications of this proposed standards to the group management. The lack of clarity in the determination of components may result in conflicting views between how the management and GET identify components with higher assessed risks of material misstatement. There may be increased pressures from group management to perform the minimum work necessary to address the risks of material misstatement in an audit of group financial statements which will potentially compromise audit quality. In our view, ED-600 could include various factors to consider in determining components with higher assessed risks of material misstatement.

## NBA

Although we understand that the ED is written in such a way that it offers the necessary flexibility and that not all structures can be described, we do miss the group audit of letterbox companies. This type of audit has its own specific characteristics. Guidance on this type of audits would be appreciated.

Some suggestions of circumstances for which we would like to have some guidance (not limited):

The audit of the (intermediate) holding companies with limited operational activities (hereinafter referred to as the holding company). In addition, there is an operational holding company that performs functions and activities such as accounting and group management (hereinafter referred to as operating holding company). The operational holding company is the holding company from which the operational activities are managed. The operating holding company is often located in a different location (at home or abroad) than the holding company. These two entities are audited by different auditors: the holding company's auditor and the operational holding company's auditor. The holding company's auditor would like to use the work of the operational holding company's auditor;

In case of only one legal entity, then there is no holding company. This may occur in a situation where the registered office of an entity is established in country A (and therefore an entity of country A), while the activities and operations (including management) and financial administration etc. are located in country B, but where no separate legal entity was established in country B. No separate auditor's report will be issued if there is one team.

In case of net equity investments in listed companies: 4 private equity funds each have a 20% investment in a company listed on the stock exchange. The other 20% is held by various smaller investors. The private equity funds account for the investment at net equity value in accordance with GAAP. The private equity funds are audited by 4 different audit firms. As local laws and regulations prevent information asymmetry, the auditors of the private equity funds do not have access to the information of the (component) auditor of the listed company.

Furthermore, little attention is paid to data-analytics. Only In paragraph A45 automated tools or techniques that could be used by the component auditor at request of the group engagement team are stated We recommend to give more attention to this important subject matter. Group engagement teams can also use this themselves to improve the effectiveness and efficiency of the group audit.

Intermediate holdings (letterbox companies) (see Q12 in this letter)

Although we understand that the ED is written in such a way that it offers the necessary flexibility and that not all structures can be described, we do miss the group audit of letterbox companies. This type of audit has its own specific characteristics and we would like to have some guidance included in the ED.

## NZAuASB

The NZAuASB would like to draw the IAASB's attention to recent research indicating that users of group financial statements are interested to know about whether component auditors were involved in the group audit and how their involvement is managed. The NZAuASB notes that communication of matters ancillary to the outcome of the audit (such as fees and the firm's approach to quality management) to users is an ongoing issue internationally. It may be that more information and evidence is needed before an informed decision can be made about how best to communicate the involvement of component auditors in a group audit. The NZAuASB is aware of the differing views about whether such disclosures (and the use of other mechanisms such as transparency reports) are more a matter of a regulatory response or for an auditing standard. The NZAuASB urges further consideration of the matter, noting that transparency remains an important factor in the public interest. However, the NZAuASB considers it important that the primary emphasis is on the group engagement partner's responsibility.

## 5. Accounting Firms

### BDO

Further, we ask that consideration be given to including a section on 'Related parties' directly after the section on 'Subsequent events' in ED-600.47. A separate section on related parties and unusual transactions would highlight their importance at both the group and component levels.

### BT

It would be helpful for some jurisdictions to explicitly clarify in the introduction to the standard that which is implicitly inferred in Appendix 1. Being that it is not the IAASB's intention to discourage the appointment of component auditors from a different network to the group auditor. Appendix 1 is helpful in tone and content.

Paragraph A42 refers to automated tools in a manner which could be interpreted to infer for example that if a parent entity auditor has a proprietary software which is not available to the component auditor then the component auditor is less competent or capable. Paragraph 42 could also be interpreted to mean that the component auditor cannot be appointed if they do not have or cannot access a particular tool. Using different systems does not mean they are not equivalent in the circumstances. Having common systems does not necessarily mean that firms are equivalently capable and competent. It should be made clear that mandating the use of a specific tool may be unnecessary when mandating the use of a technique is more appropriate. For example, specifying that "XYZ Data Analytic tool must be used for [a task]" is very different from specifying that "A data analytic tool should be used for [a task]". We recommend that the fourth bullet of paragraph A42 (and paragraph 3 of Appendix 1) is amended to replace "common" with "equivalent" throughout as follows (see strikethrough and bold text):

"A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as: [...] The degree to which the group engagement team and component auditor are subject to common ~~equivalent~~ systems of quality management, for example, whether the group engagement team and a component auditor:

Use common equivalent resources to perform the work (e.g., audit methodologies or information technology (IT) applications)

Share common equivalent policies or procedures affecting the engagement performance (e.g., direction and supervision and review of work or consultation;



Are subject to common equivalent monitoring activities; or

Have other commonalities/ equivalencies, including common equivalent leadership or a common equivalent cultural environment.”

Different firms are already working with and embedding different data analytical tools into their audit processes. To require a component auditor to use a specific automated tool is equivalent to requiring a component auditor to use a specific audit methodology. The second sentence of paragraph A45 should be amended as follows: “When the group engagement team requires component auditors to use specific equivalent automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team’s instructions.”

## CG

In addition to obtaining a confirmation, prior to dating the auditor’s report, from component auditors that ethical requirements relevant to the group audit engagement have been fulfilled (ED-600, 20c), a confirmation ought to be obtained prior to the commencement of the engagement. Obtaining such a confirmation reflects what many auditors regard as best practice and current perform as part of group audit engagements.

## CR

We believe the IAASB should consider allowing the group auditor the option to not assume responsibility for, and thus, accordingly, make reference to, the audit of a component auditor in the auditor’s report on the group financial statements. This is consistent with both AICPA AU-C 600 and PCAOB AS 1205. We do recognize that this may add complexity to the standard and potentially create confusion in practice. However, the benefits of the added flexibility may decrease costs and address complexities that may arise between international borders.

We request the IAASB consider use of visual aids, such as flowcharts, in ED-600 (and in standard-setting overall). Such may help facilitate more clear and concise discussions amongst members of engagement teams, national office/professional practice functions, and auditees. Also, a flowchart on group audit requirements may help group auditors and component auditors in different countries more effectively communicate, particularly when there is a language difference.

We have the following matters we wanted to raise:

## DTT

Engaging with the International Ethics Standards Board for Accountants (IESBA)

Given the refinement of the extant definition of engagement team in proposed ISA 220 (Revised), Quality Management for and Audit of Financial Statements, to eliminate the necessity for those on the engagement team to be “engaged by a firm or network” and instead focus broadly on “any other individuals who perform audit procedures on the engagement,” DTTL believes it is of utmost importance to understand the implications and possible unintended consequences of changes to the definition in the context of the IESBA’s International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”). DTTL notes that paragraph A18 of proposed ISA 220 (Revised) highlights that an engagement team includes individuals from both a network firm and a firm that is not a network firm. ED-600 similarly draws no distinction between individuals in a network firm or individuals in a firm that is not a

network firm as it relates to the group engagement partner's responsibility to obtain confirmation from the component auditors that ethical requirements, including those related to independence, that are relevant to the group have been fulfilled. While the IESBA Code addresses the relevant ethical requirements, including independence, that apply to the auditor's network firm, the IESBA Code as currently drafted does not contemplate the situation in which component auditors are from a firm that is not a network firm. It is therefore unclear to what extent the relevant ethical requirements that are applicable to the broader engagement team are now extended to those component auditors that are from a firm that is not a network firm.

DTTL understands that the IESBA Project currently underway will potentially address these issues and DTTL believes that as part of this, it is imperative that the IESBA Code be revised to more holistically encompass the changes made to both proposed ISA 220 (Revised) and ED-600. This includes explicitly defining the relevant ethical requirements in the context of a group audit, including circumstances in which component auditors are performing work at the request of the group engagement team, and when such component auditors are performing work for a component that is not a wholly owned subsidiary (e.g., an equity method investment). This allows for a common understanding by all members of the engagement team (i.e., those individuals in a network firm and those individuals in a firm that is not a network firm), when referencing the ISAs as well as the IESBA Code. This understanding is of utmost importance when the component auditor confirms compliance with the relevant ethical requirements, including independence. In addition, this common understanding is a required element in the "Basis of Opinion" section in the auditor's report on the group financial statements.

DTTL notes current practical challenges when addressing circumstances in which there is an inadvertent breach of the independence requirements by the component auditor when such component auditors are from another network firm; this is not currently addressed by the IESBA Code. As drafted, paragraph 22 of ED-600 could be interpreted that even when the component auditor communicates to the group engagement team an inadvertent breach of the independence requirements, and the breach has been remediated and is deemed to not impact the component auditor's objectivity, the group engagement team would nevertheless not be permitted to use the work performed by that component auditor. DTTL does not believe this is the intent of the IAASB where the inadvertent breach is inconsequential in nature, and deviates from the way in which a breach by a component auditor from the same network firm is addressed in the IESBA Code, thereby making the ethical requirements when using a non-network firm component auditor more onerous than when using a component auditor from the same network firm. DTTL acknowledges the potential inconsistency in practice when addressing the implications of an inadvertent breach and the impact on the group audit. DTTL also believes these ethical requirement matters may be further exacerbated and impacted by the firm auditor rotation requirements that are in effect in certain jurisdictions, whereby prospectively more component auditors may be from non-network firms. DTTL strongly encourages the IAASB to engage with IESBA (as part of the aforementioned IESBA Project) to provide further clarity in this area in order to resolve this public interest matter.

Lastly, amending the definition of "component" in ED-600 to reflect "a location, function or activity [...] determined by the group engagement team" may create challenges when identifying the related entity or business unit when obtaining an independence confirmation from component auditors. DTTL believes that the IAASB should engage with IESBA to ensure that this amendment to the definition is also addressed as part of the revisions to the IESBA Code (i.e., as part of the IESBA Project) and that there are no unintended consequences resulting from the conceptual change in the identification of what constitutes a component. DTTL strongly encourages the IAASB to continue its dialogue with IESBA with respect to these matters.

Consequently, given the interrelatedness of ED-600 and the need to have clearly defined relevant ethical requirements in the IESBA Code, DTTL believes that the effective date of the revised IESBA Code (as a result of the IESBA Project) and ED-600 should be aligned (along with the effective date of proposed ISA 220 – see below) in order to ensure consistency between the professional standards issued by the IAASB and IESBA.

Definitions (paragraph 9):

Component auditor and group engagement team (paragraphs 9 (c) and (j))

It is unclear as to whether the definition of “group engagement team” in ED-600 is intended to incorporate any component auditors who meet the requirements noted in paragraph 9(j)(i)-(iii), or if component auditors should be excluded from those “other members of the engagement team”. DTTL suggests clarifying the intent of the definition. In addition, DTTL recommends the following edits to increase consistency of the use of the phrases group audit strategy and group audit plan:

9(j) Group engagement team – The group engagement partner and other members of the engagement team who are responsible for:

(i) Establishing the overall group audit strategy and group audit plan; ...

Component management (paragraph 9(d))

Because “component” is how the group engagement team determines the overall group strategy and group audit plan for purposes of planning and performing audit procedures in a group audit, there may not be instances in which management exists that is specifically responsible for the related financial information of the component. DTTL therefore recommends deleting this definition, and amending the phrase throughout to reflect “management of the component.”

Auditor’s Report (paragraph 52):

DTTL believes that by adding the suggested wording “as a basis for forming an opinion on the group financial statements” to paragraph 52 of ED-600 (as outlined below), three potential areas of confusion are addressed, as follows:

As drafted, the proposed standard may infer that the auditor’s report cannot make mention of the component auditor in the auditor’s report, as opposed to focusing on the intention that the group engagement partner may not divide responsibility with a component auditor as a basis for forming an opinion on the group financial statements.

There is an apparent contradiction between paragraph 52 of ED-600 in which reference to the component auditor is not permitted, unless required by laws or regulation to include such reference, and paragraph A118 of ED-600 in which a reference to the component auditor may be necessary to adequately explain the circumstances pertaining to an inability to obtain sufficient appropriate audit evidence.

It is unclear whether the restriction in paragraph 52 of ED-600 prohibits reference to a component auditor when communicating key audit matters in accordance with ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report.

DTTL believes the proposed edit limits the prohibition to making reference to a component auditor as a basis for forming an opinion, while leaving flexibility for situations where mention of a component auditor may be necessary.

DTTL therefore believes that it would be clear that the auditor may make mention of the component auditor in the auditor's report of the group financial statements if such a reference is necessary, for example; to adequately explain the circumstances resulting in a modification of the group audit opinion (see paragraph A118 of ED-600), while prohibiting the reference to the component auditor only with respect to the basis for forming an opinion.

DTTL recommends the following edit to address the matters noted above:

#### Auditor's Report

52. The auditor's report on the group financial statements shall not refer to a component auditor as a basis for forming an opinion on the group financial statements, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion.

Communication with Group Management and Those Charged with Governance of the Group (paragraphs 53-56):

DTTL recommends that this section of the proposed standard be reordered to more logically follow the sequence of the existing ISAs (refer to the recommendation outlined below), and that the headings and paragraph numbers be adjusted. In addition, DTTL has observations as it relates to paragraphs 53, 55, 56, and A119 of ED-600.

#### Paragraph 53

ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, is clear that all significant deficiencies in internal control are communicated in writing to those charged with governance and, where applicable, to management. Further, all other deficiencies in internal control that are of sufficient importance and have not otherwise already been communicated to management should be communicated to management. Paragraph 53 of ED-600 implies that the group engagement team "shall consider" communicating deficiencies in internal control that have been identified by the group engagement team and the component auditors. This implies a level of optionality that does not exist, and as such DTTL recommends clarifying the intention of the requirement. (See amended and renumbered paragraph 56 below.)

As drafted, the requirement is also not clear whether the significant deficiency determination for those identified deficiencies arising at the component is being made by the group engagement team or the component auditor. DTTL recommends that application material clarifying this matter be included in ED-600. (See new paragraph A122 below).

#### Paragraph 55

DTTL believes that the intention of paragraph 55 of ED 600 is specific to the communication of matters between the group engagement team and the auditor that performs an audit for statutory, regulatory, or another reason on the financial statements of an entity or business unit that is part of a group in which such auditor may or may not also be the component auditor. DTTL has recommended edits to the requisite paragraph to address this matter. (See amended and renumbered paragraph 54 below.)

#### Paragraph 56

DTTL is of the opinion that circumstances in which the group engagement team would communicate concerns regarding the quality of the component auditor's work and how these concerns were addressed to

those charged with governance as required by paragraph 56(b) of ED-600 would be infrequent or rare. The group engagement team, led by the group engagement partner, is responsible within the context of a firm's system of quality management and through complying with proposed ISA 220 (Revised) and other ISAs, for quality management at the group engagement level. Paragraph 11 of proposed ISA 220 (Revised) states the "objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that the auditor has fulfilled the auditor's responsibilities ...". Further, paragraph 13 of proposed ISA 220 (Revised) states that "the [group] engagement partner shall take overall responsibility for managing and achieving quality on the [group] audit engagement ...". Paragraph 21 of ED-600 addresses the special considerations applicable to a group audit and the responsibility of the group engagement partner to determine the competency and capabilities of the component auditors.

DTTL believes that if areas of concern are identified by the group engagement team related to the quality of the component auditor's work, these would necessarily need to be mitigated in order for the group engagement partner to comply with the responsibilities in proposed ISA 220 (Revised). Further, if necessary, the overall group audit strategy and group audit plan would be adjusted. Paragraph A26 of ISA 260 (Revised), Communication with Those Charged with Governance, already provides guidance that if the group engagement team modifies the overall group audit strategy and group audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, the group engagement team may communicate with those charged with governance about such matters as an update to initial discussions about the planned scope and timing of the group audit. DTTL believes that if the concerns were of consequence to the group audit, the group engagement team would be communicating to those charged with governance in accordance with ISA 260 (Revised). For these reasons, DTTL recommends that paragraph 56(b) of ED-600 be deleted. (See amended and renumbered paragraph 55 below).

#### Requirements

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

53.

NOTE: Paragraph moved below to new paragraph 56.

#### Communication with Group Management

53. 54. If fraud ... (Ref. Para. A120 A119)

54. 55. A component An auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group engagement team shall request group management to inform management of the entity or business unit of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref. Para. A121 A120)

#### Communication with Those Charged with Governance of the Group

55. 56. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised) and other ISAs: (Ref: Para. A122 A121)

An overview of the work to be performed at the entities and business units comprising the group and the nature of the group engagement team's planned involvement in the work to be performed by component auditors. (Ref: Para. A123 A122)

Instances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern.

...

#### Communication of Deficiencies in Internal Control with Those Charged with Governance of the Group

56. 53. In applying ISA 265, 23 tThe group engagement team shall determine whether any which identified deficiencies in the group's system of internal control, including with respect to those communicated by component auditors in accordance with paragraph 44 (e), are required to be communicated to those charged with governance of the group and group management in accordance with ISA 265. In making this determination, the group engagement team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors. (Ref: Para. A119 A122A-A123)

#### Application and Other Explanatory Material

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

Communication with Group Management (Ref: Para. 54-55 53-54)

A119. A120. ISA 240 ...

A120. A121. Group management ...

Communication with Those Charged with Governance of the Group (Ref: Para. 5655)

A121. A122. The matters ...

A122. A123. ISA 260 ...

Communication of Deficiencies in Internal Control with Those Charged with Governance of the Group (Ref: Para. 56)

A122A. The group engagement team may request the component auditor to make a preliminary determination as to whether an identified deficiency or combination of deficiencies is a significant deficiency in internal control at the component. Depending on the facts and circumstances, the component auditor may have the relevant information to make such a determination. The group engagement team is ultimately responsible for determining, on the basis of the work performed, whether, individually or in combination, deficiencies in internal control constitute significant deficiencies for purposes of the group audit.

Group Engagement Partner's Review of Component Auditor Communications (Ref: Para. 5356)

A123. A119. The group ...

Automated tools or techniques (paragraph A45):



DTTL agrees that when the group engagement team requires the use of specific automated tools and techniques when performing audit procedures, that the use of such automated tools and techniques need to be in accordance with the group engagement team's instructions. DTTL recommends that this guidance be further enhanced to address the component auditor's evaluation of the audit tool to ensure compliance with the quality and audit control objectives. DTTL suggests the following wording edits to paragraph A45 of ED-600:

A45. As described in proposed ISA 220 (Revised), when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group engagement team requires component auditors to use specific automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team's instructions, including instructions to evaluate the audit tool to ensure compliance with the audit tool's quality objectives.

#### Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained (paragraph A115)

The proposed standard is focused on special considerations related to a group audit; it is therefore unclear what different or unique action is intended to be performed by the group engagement team as it relates to paragraph 18 of ISA 330 with respect to the group financial statements. In addition, the paragraphs in ISA 330 related to evaluating the sufficiency and appropriateness of audit evidence obtained (i.e., paragraphs 25-27 of ISA 330) do not incorporate the concepts discussed in paragraph 18 of ISA 330; therefore, it is unclear as to the relevancy when evaluating the sufficiency and appropriateness of audit evidence obtained in a group audit. As a result, DTTL recommends deleting the sentence from paragraph A115 of ED-600.

A115. The evaluation required by paragraph 49 assists the group engagement team in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate, or may need to be revised in order to reduce audit risk to an acceptably low level. The requirement in ISA 330 for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

## EYG

### Letterbox audits

Letterbox situations (i.e., when an engagement partner is not located where the majority of the work is performed) continue to be a concern in practice and people often turn to ISA 600 to find guidance on these audits. We therefore suggest that the IAASB clearly states within the Scope of this ISA section of ED-600 that ISA 600 does not have specific requirements for letterbox audits. Instead, ISA 220 should apply as having the appropriate principles for adequate supervision and review by the engagement partner. We also suggest that the IAASB updates the Staff Audit Practice Alert issued in August 2015 – Responsibilities of the engagement partner in circumstances when the engagement partner is not located where the majority of the work is performed to reflect changes made to the revised standards and in particular ISA 600 and ISA 220. We do believe that in letterbox audits it is critical that the engagement partner is involved in the work throughout the lifecycle of the audit. The current remote working environment has proved that technology and virtual meetings can enable more frequent and timely involvement.

### Automated tools and techniques

Similar to the approach taken in ISA 315 (Revised 2019), we particularly support the introduction of guidance on the use of automated tools and techniques in the audit, including data analytics, as this represents a recognition by the IAASB of the importance of using digital techniques within the audit and helps future proof the standard. In a group audit, and particularly during the risk assessment procedures, performing analytics using automated tools and techniques may improve the quality of the audit and allow the group engagement team to improve its identification of the risks of material misstatement and group scoping earlier in the audit. These techniques may also help the auditor to reach a conclusion on whether sufficient appropriate evidence has been obtained for the group audit. For example, when a risk of material misstatement exists at many components that are not individually financially significant, performing audit procedures using automated tools and techniques may enable the auditor to perform these procedures centrally to obtain the evidence needed to conclude on the group financial statements.

Because of the specific applications of automated tools and techniques that can occur in a group audit, and the likelihood that these will continue to evolve and increase in the future, we would expect more considerations in the application material about how they may be used, and how the group engagement team can be adequately involved when component auditors are using automated tools and techniques. We strongly encourage the IAASB to increase the focus on automated tools and techniques in ED-600.

### Component auditor definition

In reference to ED-600 paragraph A14, we agree with this application material. However, we note that this guidance could be enhanced to indicate what triggers a difference between the group engagement team performing procedures on the financial information of a component and the group engagement team being identified as a component auditor. This paragraph seems to imply that when centralized testing is performed by the group engagement team, the group engagement team is never considered to be a component auditor. In practice, we could have situations where members of the group engagement team have a dual role - on the group engagement team and as component auditor. For example:

Work performed on a component that is led by senior members of the group engagement team but utilizes staff members that are not otherwise part of the group engagement team

When several components are based in the same location and the group engagement partner acts as the engagement partner on those components but there is dedicated staff performing the work on the components that are not part of the group engagement team.

### Liaising with other projects and standard-setters

We recommend that the IAASB continues to liaise with various task forces working on other standards setting organizations and IAASB projects.

We note that the guidance related to identifying and addressing fraud risks in group audits is quite limited. We therefore recommend that as part of the IAASB initiative that deals with the role of the auditor in relation to fraud, the IAASB focus on expanding special considerations for group audits. Similarly, we ask the IAASB to specifically consider going concern in the group audit context through the IAASB's initiative on the role of the auditor in relation to going concern.

The IAASB should continue its coordination efforts with the representatives and Staff of the International Ethics Standards Board for Accountants (IESBA) to develop the relevant ethical requirements and international Independence Standards applicable to the component auditors participating in the group audit,

as the International Code of Ethics for Professional Accountants (including International Independence Standards) does not currently address component auditors (except for NOCLAR).

The Public Company Accounting Oversight Board (PCAOB) has an open project on proposed amendments relating to the supervision of audits involving other auditors and proposed auditing standard — Dividing Responsibility for the Audit with Another Accounting Firm (collectively, the Proposal). We believe it is important the IAASB monitors the direction of the PCAOB proposal given the impact the PCAOB proposal and diverging views could have globally on group audits.

Yes, we do have the following other matters we would like to raise:

#### Equity investee

Throughout our responses to the IAASB Questions above, we raised recommendations in regard to equity investees in the context of our answers to the specific questions (see Questions 4, 7, 8 and 10). As a general observation, ED-600 does not sufficiently address situations when a group holds a non-controlling interest in an entity that is accounted for by the equity method. While we welcome the new guidance in ED-600 that addresses access issues, many practical questions in this context remain unanswered. We believe that a number of requirements and considerations in ED-600 should be tailored to be more specific to equity investee situations. We would particularly welcome further guidance in terms of the nature and extent of the work to be performed on these entities given these are investments in entities that often have audited financial statements. Audited financial statements are however not always available on time for the audited reporting period of the group. It would also be helpful if the IAASB could provide further considerations on how the risk-based approach applies for such investments.

#### Communication with group management and those charged with governance of the group

The wording in ED-600 paragraph 56(a) “An overview of the work to be performed at the entities and business units comprising the group...” seems to be using extant ISA 600 language rather than referring to the risk-based approach.

Should paragraph 56(b) state “serious concern” instead of “concern”? This sentence raises the question about whether a relatively minor question or concern would meet the threshold to be communicated. Note that this would also align with paragraph 22, which states “serious concerns”.

Due to the revised definition of component, when the auditor's view of components differs from management's view, the group engagement team should communicate its determination of components with the rationale for why there is a difference in view. This communication will assist in clarifying communications are made to, and written representations are obtained from, the appropriate members of component management.

Also refer to our response to Question 8(b).

#### GT

Legal implications of the retention of component auditor's working papers – We recommend that consideration is given to potential legal implications of retaining component auditor's working papers in the group engagement team's audit file. These may include for example:

Where a component auditor's working papers reference a working paper in the component auditor's audit file and that referenced working paper is not considered necessary by the group engagement team to

support the group audit opinion and, accordingly, has not been reviewed by the group engagement team, the status of the specific working paper is unclear;

Where component auditor's working papers are included in the group engagement team's audit file, it is not clear how the entire component auditor's file would be considered from a legal perspective across various jurisdictions around the globe.

Interfirm reporting – We note that a number of firms have developed a practice of requesting 'component auditor's reports' that are similar in nature to an auditor's report under ISA 700. This form of reporting is not additive in value to the engagement, and we would recommend that ED-600 include application material that specifically states that such a report is not required to fulfil the requirements of ED-600.

PCAOB's project on supervision of audits involving other auditors – We note that the PCAOB is in the process of finalising its updated standards in relation to the supervision of audits involving other auditors. We would recommend that consideration is given to these proposals in finalising ED-600 such that global alignment is achieved to the extent possible.

Understanding of components – ED-600 is ambiguous with regard to the nature, timing and extent of understanding of the components that the group engagement team is required to obtain. For example, it is not clear whether the proposals require an understanding to be obtained for all components, for only those components at which procedures will be performed, or components as judgmentally determined by the group auditor on criteria such as the significance of the component, the location of the component or the nature of the component's operations. We recommend that application material is provided that clarifies this understanding and, if judgment is to be applied, the factors to consider when determining for which components an understanding is obtained.

Relevant controls – Where the scoping of the group audit results in numerous significant risks related to the same financial statement caption or significant risks that apply across numerous components, the extent of the understanding of relevant controls necessary for such significant risks and the potential for use of common controls is unclear. We recommend that clarification is provided on how common controls may be used in such circumstances.

Determining the nature, timing, and extent of further audit procedures - Paragraph 33 of ED-600 requires the group engagement team to take responsibility for the nature, timing and extent of further audit procedures to be performed. Further guidance on the application of this related to the determination of the nature, timing, and extent of further audit procedures to be performed (that is, clarifying this in the context of supervision and review) across the group would be helpful. Whilst we appreciate that the sufficiency of testing across numerous components for a given risk of material misstatement is a matter of professional judgment, it would be helpful if there was guidance on the factors to consider in making that determination.

We have identified the following additional matters in relation to ED-600:

#### KPMG

We note that the extant standard is primarily directed towards using the work of a component auditor and therefore it is placed within the ISA 600 series, which addresses using the work of others.

However, the proposed revised standard is focused on the special considerations applicable to a group audit more broadly, in terms of describing how to apply other ISAs in the particular circumstances of a group audit, including ISA 220 (Revised), ISA 315 (Revised) and others. Although the standard continues to

address involvement of component auditors, such material is included in the wider context of these special considerations.

As a result, we consider that continued inclusion within the 600 series may not best reflect the fundamental nature and intent of the standard, and therefore we recommend that this be located separately, within its own series, that is specifically focused on the special circumstances of group audits. We believe this would be appropriate in the shorter-term, in order to help clarify and embed the changes proposed to the standard. Furthermore, such placement would also pave the way, in the longer-term, for additional ISAs to be developed and included in this series if the IAASB considers this appropriate, for example an ISA that is specifically directed to component auditors and their role and responsibilities.

## MAZ

As previously mentioned, joint audit should be mentioned in this ED ISA 600 as it is in the extant ISA 600.

As the standard is quite long, we would be in favor of an electronic interactive “handbook” as quickly as possible.

We observe that the sub-consolidation topic is not mentioned in the ED. We believe that it would be helpful to provide guidance on this as it is a way of enhancing audit quality. In practice, the group auditor often gives a materiality to the auditor of the sub-consolidation level and lets him/her perform the scoping and the determination of the materiality for each component included in the sub-consolidation. This practice creates a kind of an “obscure box” whereby the group auditor may consider that they have obtained 100% of coverage of the sub-consolidation, when in fact, certain components in the sub-consolidation may have been scoped out, leading for the potential of under auditing / scoping at the consolidated group level. We believe that the ED should address requirements for the group auditor to monitor the scoping and the materiality not only at the sub-conso level, but at all reporting levels in the group.

## MAZUSA

Other Matter 1 – Two-Way Communication: Paragraph 44(f) references a requirement for component auditors to communicate “other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component...” While the requirement in ISA 260 to communicate with those charged with governance of the reporting entity is clear, it is not clear why the proposed standard is adding a requirement to communicate with those charged with governance of components. We believe that the communications of governance matters should be made solely with those charged with governance for the reporting entity, and that such governance body should determine whether and how to communicate with its component management and governance structures.

Paragraph 56(b) includes a requirement to communicate with those charged with governance of the Group “instances where the group engagement team’s review of the work of a component auditor gave rise to concern about the quality of that component auditor’s work, and how the group engagement team addressed the concern.” We do not believe this requirement is appropriate. As part of the group engagement team’s responsibility under ISA is to evaluate the sufficiency and appropriateness of the audit evidence obtained, the group engagement team would need to address the quality concern such that, at the date of reporting, the concern has been alleviated. As a result, no reporting to those charged with governance is deemed necessary.

Other Matter 2 – Two-Way Communication: Paragraphs 43-46 and the related application material address “two-way communication”. However, the guidance focuses primarily on communication from the component

auditor to the group engagement team. For component auditors to properly assess risk and develop an audit plan, as contemplated in paragraphs 37 and A96-101, component auditors need a full understanding of the control environment impacting their component's operations. ED-600 does not include, for example, a clear expectation for the group engagement team to communicate the results of internal control procedures that could impact the component auditors' design and extent of audit procedures. Additionally, up-stream entities may perform substantive testing, for example impairment analyses or intercompany analysis, the results of which may impact judgments made by the component auditors.

## MGN

We have suggested or requested additional guidance material relating to several aspects of the proposed revisions in this response. We believe that practical guidance, including examples, will be both helpful and appropriate in delivering a smooth implementation of what is in many ways a very 'practical' standard. We would encourage IAASB to consider what is the best form of guidance for practical issues and to take advantage of the many opportunities offered by modern methods of communication.

## NEXIA

There could be more guidance on the deliverables (including ISQC/ ISA and other local regulatory requirements) of the component auditor to the group engagement team.

We have the following matters we wanted to raise:

### General comments

The ED600 (Revised) has not changed the fundamental substance of the extant ISA 600, i.e. requiring the group auditor to obtain sufficient and appropriate evidence in a group audit.

Whilst the ED600 (Revised) is an enhancement of the extant ISA 600, it would be helpful if IAASB can provide a summary as to the additional procedures that the group engagement partner/team need to perform on top of those as required under the extant ISA 600.

The ED600 (Revised) has extended the roles and responsibilities of the group engagement partner which, as a result, appear too onerous for the group engagement partner.

### ISA 600 series

- The ISA 600 series were originally intended to cover circumstances requiring the use of other's work in an audit of financial statements e.g. ISA 610 covers using the work of internal auditors, ISA 620 covers using the work of an auditor's expert.

- However, the ED600 (Revised) has gone beyond "using the work of a component auditor". Instead, it reinforces the group engagement team's involvement in the work of a component auditor.

We note that the ED makes no mention of language issues. Often a component auditor's working papers are in their local language which is different from the group engagement team's local language. In such a case:

We can presume that the group engagement team would require sufficient proficiency in the language to satisfy themselves that sufficient and appropriate audit evidence exists for the component.

Is it the position that any of the foreign language working papers would be required to be translated to the group engagement team's local language? We have had instances where the regulator suggested that such translated working papers are required, rather than relying on documentation in the group engagement



team working papers that summarize their review on the foreign language working papers. We view such requirements as draconian, and inconsistent with the spirit of the ISA 600 exposure draft's position on the role of professional judgment. Accordingly, definitive guidance on this issue would be helpful.

Also, we note that there is no consideration for either:

Guidance on stratification of significant vs non-significant components. This would potentially include analytic procedures for the non-significant components and selection/rotation of audits on the aggregated non-significant components; and

Guidance on audit of equity investments as these are one-line consolidations with significant disclosures. This would potentially include considerations of component materiality and relationship to ownership percentage, and potential issues related to ISA 600.42 where other auditors are engaged to audit, or have completed the audit of, the equity investment entity.

The ED is abundantly clear that the group engagement partner is responsible for the group audit if that was their intent.

ED-600 seems to imply that the group engagement team should communicate with governance with the component auditor is not performing at the expected level (ED-600.56(b)). We believe that in practice, this communication should happen between the group engagement team and component auditor. It appears to be awkward otherwise and highlights division within the engagement team (also see response to question 1 above regarding definition of engagement team).

Same goes for para 51 – 'If the work of the component auditor is insufficient, the group engagement team shall determine what additional audit procedures are to be performed'. However, having determined what additional procedures are necessary, it is missing the next step and what if the component auditor is unable/unwilling to do them?

We are just suggesting the requirements link better to other ISAs. It may be more helpful for the standard to describe (or x ref to) the implications of these matters on the auditor's report, or what the auditor can practically do to resolve those matters.

- We believe the IAASB should consider allowing for the group auditor the option to not assume responsibility for, and thus, accordingly make reference to, the audit of a component auditor in the auditor's report on the group financial statements. This is consistent with both AICPA AU-C 600 and PCAOB AS 1205. We do recognize that this may add complexity to the standard and potentially create confusion in practice. However, the benefits of the added flexibility may decrease costs and address complexities that may arise between international borders.
- We request the IAASB consider use of visual aids, such as flow charts, in ED-600 (and standard-setting overall). Such may help facilitate more clear and concise discussions amongst members of engagement teams, national office/professional practice functions, and auditees. Also, a flowchart on group audit requirements may help group auditors and component auditors in different countries more effectively communicate, particularly when there is a language difference.

**PwC**

Achieving global consensus

In progressing the proposed standard to finalisation, given its global impact (i.e., the need to involve component auditors from across multiple territories that results from the increasing globalisation of groups), it is important that proposed solutions have global support. In particular, it would be highly disruptive if different requirements were to emerge between standard setters, which may lead to inconsistencies in practice and risks to audit quality.

We encourage the IAASB to work closely with national standard setters, in particular the PCAOB given the pervasive reach of audits performed under the ISAs and PCAOB standards, to ensure there is broad consistency in the principles and approach to the conduct of group audit engagements. Any differences should be both justified in the circumstances and, to the extent possible, minimised.

#### Flowchart

In our broader outreach, we received comments on the usefulness of the flowchart that follows paragraph A47 in extant ISA 600. We encourage the Board to consider what useful additional flowcharts can be developed, and perhaps included as an appendix to the ISA or as implementation support materials, to illustrate the thought process and key considerations under the proposed new approach. This would likely build off the flowcharts developed for implementation of ISA 315 (Revised 2019)).

#### Conforming amendments

##### ISA 610

We find the proposed change to paragraph A16 to lack clarity. Previously the intent was clear from the guidance - in some circumstances the auditor could obtain evidence from audits or reviews performed by internal auditors of subsidiaries that were not significant components. Now stating that the auditor can make use “In some circumstances, [of] the work performed on the financial information of entities or business units of a group”, the circumstances that are being envisaged here, and whether there are any constraints placed on the nature or extent of such use, are unclear. We believe revisions are necessary to provide such clarifications.

##### ISA 700

We find the deletion to references to “the financial information of the entities or business activities within the group” in paragraph 39 (c)(i) eliminates the purpose of the paragraph. The required statement now conveys nothing meaningful and does not achieve any additional purpose beyond the statement required by paragraph 39 (b)(i). We recommend reinstating these deleted words.

We also note that the amended illustrative reports do not align with the wording stated in the requirement, referring to “consolidated” rather than “group” financial statements. While having no objection to either term, we note the requirement is worded as “...the auditor’s report shall further....describe the auditor’s responsibilities in a group audit engagement by stating that”, indicating this is prescribed language that must be used.

## 6. Public Sector Organizations

### AGM

However, we are disappointed that the scope of the ED-600 was not modified to include the co-audits. The audit in the public sector frequently includes the co-audits and we notice a lack of standards and guides in the actual standards. This is a concern for our Office especially since the passing of the Quebec’s bill that

caused all our financial audit mandates to be co-audit. Since the ED-600 frames the use of work of another auditor, in our opinion, we believe that the scope of application should include co-audits.

With the exception of co-audits, we have no more questions for ED-600.

## AGSA

More guidance on entities which are outside the control of the group (e.g. joint venture or associate) and the extent of documentation required should be considered.

## 7. Member Bodies and Other Professional Organizations

### AE

As noted in our response to Question 6, the suite of enhancements to a number of ISAs have greatly elevated the focus on professional judgement and risk analysis. This is a welcomed move but is likely to need a period of experience to maximize the full value of the risk-based approach as prescribed in both ISA 315 (Revised) and ED-600. The objective of this approach is to help auditors design efficient and effective approaches and allocate their time on the areas with higher risk.

In order to achieve this, auditors need to understand the nature and the objectives of the new requirements. There will be some challenges for auditors to adapt to the new approach especially in the early years of application. Hence, implementation guidance clarifying fundamental changes would be very useful for a smooth transition.

Finally, whilst our own outreach indicates support for the more flexible and principle-based concepts, this is also accompanied by a desire for more supporting guidance, particularly in respect of more complex group structures. Although this might not be a primary responsibility of the IAASB, we believe that the IAASB can play an important role helping to fill this gap, perhaps by engaging with IFAC and national standard-setters. Such an approach will help 'level-set' application expectations and mitigate the risk of inconsistent and jurisdictionally fragmented implementation. Without such supporting material we do not expect that challenges of very complex group structures will be overcome solely by revising the extant ISA 600.

### EFAA

#### OTHER COMMENTS

The Board should consider the merits of the ISA including a statement as to the importance, or necessity even, for component auditors to cooperate with the group auditors including facilitating the review of working papers of the component where applicable.

Finally, the Board needs to start thinking whether, and if so, how the proposed new standard for the audit of less complex entities (LCEs) deals with the audit of less complex groups.

### ICAEW

#### EXAMPLES AND IMPLEMENTATION SUPPORT

Our responses to the specific questions below identify a number of key areas which would benefit from greater clarity and/or additional guidance or examples to aid understanding of key requirements. We have made the point previously to IAASB about considering ways in which non-authoritative guidance, alongside standards, may be developed and encourage IAASB to reflect further on how this might be achieved. We

consider such guidance will be important to support effective implementation and consistent application of the requirements.

Paragraph 52 of ED-600 prohibits references to a component auditor in the auditor's report unless required by laws or regulations. Our outreach suggests that some audit firms currently include references to the work of component auditors in relation to key audit matters in extended auditor reports. These are included to aid users' understanding of audit work and reviews performed without any intention of detracting from the group engagement partner's responsibility for the group audit opinion.

We consider there is a need for greater clarity and/or additional guidance or examples to support some of the key requirements in ED-600 – as outlined in a number of our responses to the questions posed. We consider this necessary to aid understanding of the requirements, to support effective implementation and ensure that the requirements are consistently applied. We encourage IAASB to reflect on ways in which this might be achieved.

## ICAS

There may be some practical challenges and risks associated with applying the proposed standard, particularly when the finalised standard is first introduced. To mitigate such risks at the implementation stage we believe that further guidance outside of the ISA on certain areas would be helpful to auditors. This would cover matters such as when does the standard apply (entry point); practical considerations in relation to complex group structures, including joint ventures; and considerations relating to non-corporate group entities.

## IIA

Yes. Extant ISA 600 on page 21, paragraph 64, requires the group engagement team, or a component auditor on its behalf, to perform an audit of the financial information of the component in certain circumstances. "When an audit of the financial information of a component is performed by a component auditor, the component auditor is responsible for the identification, assessment and response to risks of material misstatement at the component, including with respect to fraud, going concern, and related parties."

The IIA recommends editing this section to remove the word "response" or change to "documenting the response" to risks of material misstatement. The component auditor is not responsible for the action to be taken.

## IPA

Constitution of the Group – the revised ISA 600 needs to specifically address minimum audit procedures required to determine the extent of the group i.e. the entities that should comprise the group financial statements

Consolidation Processes – the revised ISA 600 should provide more guidance on necessary procedures relating to consolidation processes, and

Offshoring – there is no guidance in either ISA 600 or other ISAs relating to the appropriate oversight and review procedures of the use offshore audit assistance in carrying portions of a financial statement audit and the IAASB should address this deficiency.

The IPA would like to raise the following issues that should be addressed as part of the revision of ISA 600:

The revised ISA 600 should specifically address, as part of the group planning process requirements, for the group engagement team to determine the extent of the group (including structured entities, associates, and joint arrangements) exercising appropriate professional scepticism in doing so. We note that certain audit failures can be at least partly attributed to a lack of awareness of the extent of the entity to be audited

Clarification of the applicability of revised ISA 600 to circumstances where the group engagement team and the component audit team are members of the same office. We are of the view ISA 600 should apply in such circumstances

ISA 600 should provide more guidance in relation to the minimum audit procedures relating to the consolidation process, and

The impact of using offshoring to carry-out audit procedures and the minimum level of oversight and review necessary to meet the requirements of the applicable auditing standards.

### MICPA

Comment:

We believe it will be useful to prepare materials on the implications of this proposed ISA 600 (Revised) to explain to group management and preparers of group financial statements as to whether this will result in more or less efforts on their part to prepare for and attend to the audit processes.

There is also a requirement for group engagement teams to make an assessment of the quality of component auditors including considering the results of external quality inspections. This will be a challenge particularly if the component auditors are not from the same network of firms in view that such information are generally not publicly available and will be considered as highly sensitive and confidential.

### NYSSCPA

We expected that the foundational standard on audit sampling would have been identified in the Board's implementation review of the clarified auditing standards as requiring revision, but we regret that has not occurred. We firmly believe, however, that ISA 350, is flawed conceptually and requires revision (as discussed further below).

We refer the Board to our May 29, 2009 comment letter to the AICPA Auditing Standards Board (ASB) containing our detailed paragraph-by-paragraph critique of the then proposed US clarified standard (<https://www.nysscpa.org/docs/default-source/commentletter/aicpa09c.pdf>); it is virtually the same as ISA 350 except for a few changes made after the comment letters were vetted when the final standard was issued.

In preparing this letter, the drafters of our 2009 comment letter desired to ensure that the comments in our earlier letter were still viable, so we reviewed again both the International and U.S. Standards, and reviewed the AICPA Financial Reporting Center report issued by the AICPA in 2014, which provided a listing of differences between the U.S. and International Clarified Standards. On the basis of that review, we believe the issues identified in 2009 are still pertinent.

We believe our letter of May 29, 2009 is self-explanatory, and we wish to continue to emphasize the importance of a focus on audit sampling.

There is an opportunity to revise the international audit sampling standard in conjunction with the ongoing revision of the international audit evidence standard. Since the conceptual flaws identified in our 2009

comments centered on highly technical statistical theory and issues, we recommend that a future revision of ISA 350 entail the consultation of a well-credentialed statistics professor from a major university.

In order to mitigate any concerns about differences between the extant sampling standards, we are listing the following changes included in AU-C 530, after the time the ASB vetted the comment letters and issued the final standard.

Differences between extant ISA 350 and AU-C 530:

The definition of audit sampling in AU-C 530 was changed during its development process to focus on conclusions about the population and include the concept of representativeness.

A discussion of anomalies in para. 13 of ISA 350's discussion of misstatements was dropped in the U.S. standard.

AU-C 530.14 was expanded during its development process to include a discussion of projection of misstatements in a sample of a population, to include projections for tests of controls and test of compliance.

A brief summary of some conceptual flaws identified in in our May 29, 2009 letter that persist in the current standards follows:

Nonstatistical and statistical sampling are placed on an equal footing.

The standards permit the auditor to disregard readily obtainable and statistically valid results from a probability sample by labeling the sample as nonstatistical.

The standards permit an erroneous approach to sample evaluation by emphasizing the sample point estimate to risk factor rather than using a confidence interval.

The standards perpetuate some technical errors that were in U.S. SAS 39 (1982) and deleted some significant relevant items contained in that document.

The standards do not provide a statistical basis for proposing an adjusting journal entry to correct for misstatements but rather provides a basis for rationalizing or disregarding sample results.

We hope the Board will lead by correcting these flaws and inspire the ASB to converge its sampling standard accordingly.

## **SAICA**

SAICA is of the view that due to the complex group structures that exist in the modern day era, it is imperative that the IAASB produce implementation guidance outside of ED-600. ED-600 should not be rules-based and should remain principle-based to avoid a 'tick-box' approach being followed by auditing firms in order to satisfy the requirements of the standard, hence the need for implementation guidance outside of ED-600. The implementation guidance should incorporate practical examples.

The following are some of the suggested topics to be covered in the implementation guidance to ED-600:

Process to be followed in archiving the documentation of component auditors.

Group and components having non-conterminous year-ends.

Dealing with situations where some of the components may be using accounting policies that are inconsistent with the group's accounting policies.



Scoping of account balances, class of transactions and disclosures in group audit engagements (using the risk-based approach in ED-600).

How to review component auditor documentation and the extent of review required.

Using the work of another auditor where the group holds a significant equity investment but does not exercise control of the investee.

Component materiality and component performance materiality for components that represent equity investments but where the group does not exercise control of the investee.

The group engagement partner's considerations when there are restrictions on access to people and information.

Illustrative examples of communication by the component auditor to the group engagement team.

Performing group audits where the group uses shared service centres.

The role of component auditors in group audits.

Documentation to be included in the group engagement file.

Another consideration is to include a section on 'Related parties' directly after the section relating to 'Subsequent events' in paragraph 47. Corporate failures often involve fraudulent transactions that are in some instances linked to collusion between related parties. Unusual transactions not at arms-length at component levels could indicate the existence of related parties that have not been identified by the group engagement team. Paragraph 41(a) of ED-600 should be moved into this section and there should be additional information on the unusual transactions not at arms-length as explained above. A separate section on related parties, with reference to ISA 550, Related Parties, and unusual transactions at component level would highlight the importance thereof.

## **SMPAG**

### **Cooperation of the Component Auditors with the GET**

In practice, getting the component auditors to cooperate with the GET can also be an issue. Is it possible to include in the ISA some statement on the importance of the component auditors cooperating with the GET to facilitate the review of working papers of the component, where applicable? There have been requests in the past for the GET to pre-sign a "hold harmless" letter before working papers of the component auditors can be accessed.

### **Public Interest**

ED-600 placed a particular focus on public interest issues. However, certain jurisdictions may consider such relevant requirements to be too onerous in case of non-PIE entities group audits, whose applicable "interest" could merely be stakeholders' interests rather than the broader public interest.

### **Ethical Requirements**

It is understandable that if the component auditors are performing work within the group audit, it would be expected that they comply with the same ethical requirements as other engagement team members (or at least within the GET). However, there are concerns that compliance with para. 20 will be a real practical challenge and lead to extensive administration and cost. There are also calls for ISA 600 to provide additional application material on assessing the component auditor's independence and ethical compliance when he/she is subject to a different regulatory regime than the group audit firm.

Para. A37 prescribes “in communicating relevant ethical requirements, the GET may consider whether additional information or training for component auditors is necessary with respect to the provisions of the ethical requirements that are relevant to the group audit engagement”. We would like to question the practicality of providing training for the component auditors in this respect.

## 8. Academics

### AFAANZ

Although not the subject of an explicit question, extant research speaks to the veracity, in paragraph 52, of prohibiting reference to a component auditor in the auditor’s report, and we make the following comments.

The prohibition in paragraph 52 on referring to a component auditor seems at odds with the increased transparency reflected in recent changes to the auditor reporting landscape. In a review of the research, Mock et al. (2013) concluded that “Users desire more information about the auditor, the audit, the financial statements and aspects of the entity that are relevant to the financial statements” (p.345). Christensen et al. (2016) similarly find that investors focus more on audit inputs and process than outputs when considering audit quality. Component auditors play a significant role in the conduct of group audits and research (Hux 2020) shows that knowledge of component auditor use in an audit impacts investor perceptions of audit team trustworthiness and financial statement reliability.

The U.S. PCAOB deliberated over whether to require disclosure of component auditors outside or as part of the auditor’s report, ultimately deciding on disclosure in Form AP, but permitting audit firms to voluntarily report this information in an appendix to the auditor’s report (PCAOB 2015). In stakeholder engagement, investors expressed a preference for the information to be included in the auditor’s report (PCAOB 2015), and research examining the interplay between mandatory reporting and additional voluntary disclosure highlights that voluntary disclosure can reduce negative perceptions of audit quality when component auditors are used (Demek et al. 2020).

We further note research suggesting that potential adverse effects of disclosing component auditor usage may not materialise. While disclosing component auditor use could unintentionally reduce audit quality as auditors feel less accountable, research in the U.S. on lead auditor decisions to accept or decline responsibility for component auditor work finds no evidence that audit quality falls when the lead auditor declines responsibility (Mao et al. 2020). Responding to concerns of the PCAOB that disclosing component auditor use may increase liability of the lead auditor, Demek et al. (2020) find that voluntary disclosure of component auditor use in the auditor’s report does not increase investor perceptions of blame and liability to the group auditor following a restatement.

While the research literature does not allow us to comment on whether disclosure of component auditor use should be a requirement, and if so, whether that disclosure should be through the auditor’s report or some other reporting mechanism, we feel that the prohibition on referring to component auditors overly limits auditors’ options in drafting Key Audit Matters as required by ISA701 and broadly limits the auditor’s ability to increase transparency. We, therefore, recommend that paragraph 52 be amended so as to state that the auditor’s report on the group financial statements may refer to a component auditor. If the auditor does refer to a component auditor, the auditor’s report shall include that the reference does not diminish the group engagement partner’s or the group engagement partner’s firm’s responsibility for the group audit opinion.

### HUNTER

We believe there could be greater clarity on the definition of a component auditor. The Auditing Standard Board's definition of a component auditor in AU-C 600 (paragraph .11) states "A component auditor may be part of the group engagement partner's firm, a network firm of the group engagement partner's firm, or another firm." If the IAASB has the same definition of a component auditor, it is not immediately clear if a component auditor can come from the group engagement partner's firm. Paragraph A13 of ED-600 states that "The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider" but it is unclear if a component auditor can come from the group engagement partner's firm as this definition refers to the engagement team in a broad sense. We believe that adding to the definition a reference to specifically where the component auditor may come from would provide greater clarity. Considering that group audits can span across different geographic locations, we believe that convergence between the ASB and the IAASB on the definition of a component auditor is important.

Paragraph A13 states that "the engagement team includes members of the group engagement team and component auditors". We believe that adding a definition for "engagement team" to the Definitions section in paragraph 9 of this Exposure Draft would provide clarity on the distinction between "group engagement team" and "engagement team".

## **Q12 – No Comment**

### **2. Investors and Analysts**

#### **CRUF**

This response is a summary of the range of opinions discussed at the CRUF meetings

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

#### **MAOB**

We thank you for the opportunity to comment.

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

#### **CAASB**

We did not identify any other matters to raise related to ED-600.

#### **KSW**

No comments

### **5. Accounting Firms**

#### **ETY**

No.

#### **MNP**

12. Are there any other matters

## PKF

Are there any other matters

## RSM

We do not have any further comments on ED-600, but we do recognise the excellent work in updating, strengthening and clarifying the standard. The links with the other ISAs and ISQMs enhance the principles-based approach and we believe ED-600 is appropriately modernised, given the increasing complexity of Group Audits.

## 6. Public Sector Organizations

### AGA

12. Are there any other matters

### AGC

Question 12:

### AGO

No.

### GAO

We do not have additional matters to raise beyond what has been covered by our responses to the other questions.

### PAS

No other matters.

## 7. Member Bodies and Other Professional Organizations

### BICA

There are no other matters that we would like to raise in relation to ED-600.

### CAANZ-ACCA

We don't have any other matters to raise.

### CalCPA

No

### CAQ

No Comment

### CPAA

Q 12: Are there any other matters

#### **CPAI**

We have not identified any further matters for comment.

#### **ECA**

Are there any other matters

#### **FAR**

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

#### **IBRACON**

No.

#### **ICPAS**

Response: No additional matters noted.

#### **IMCP**

No additional matters

#### **INCP**

Answer: We believe that there are no other matters to be considered in ED-600.

#### **ISCA**

Are there any other matters

#### **KICPA**

12) Are there any other matters

#### **NRF**

We have not identified any such matters.

#### **SRO AAS**

No Comment

#### **TFAC**

No, we do not have any other matters

#### **WPK**

See our general comments in the sections 1-9.

## 8. Academics

### GRAHAM

No Comment

### LI

No Comment

## 9. Individuals and Others

### PITT

No Comment

### VERA

Question 12