

# Supplement A.1 to Agenda Item 2

## ED-600 Question 01(a) – Does ED-600 have appropriate linkages to other ISAs and ISQMs

### Question 1.

With respect to the linkages to other standards:

- (a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?
- (b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

### **Q1(a) – Agree**

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

##### **BCBS**

Quality management at the engagement level

The Committee supports the increased linkages to ISA 220 and the International Standard on Quality Management (ISQM) standards. We consider effective quality management of an audit engagement to be an essential element of an overall high-quality audit.

Yes.

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

##### **CSA**

Overall, we support the proposals

##### **NASBA**

NASBA believes it is important to emphasize ISA 600 is complementary to the other “foundational” ISA standards. We believe ED-600 has appropriate linkages to the “foundational” ISAs and the proposed ISQMs. We especially support the footnotes provided throughout with exact paragraph references for ease of referencing.

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

##### **AICPA**

The linkage in ED-600 to other ISAs and to the proposed ISQMs is appropriate.

##### **JICPA**

We believe that ED-600 has appropriate linkages to other ISAs and the proposed ISQMs. We also consider that ED-600 sufficiently addresses the special considerations in a group audit.

## 5. Accounting Firms

### BT

Yes. The linkages to other standards are consistent and coherent.

### CG

ED-600 does have appropriate linkages to other ISAs and the ISQMs.

### CR

We believe ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs.

### DTT

DTTL is of the view that the linkages to the other ISAs and the proposed ISQMs are appropriate. The convention adopted makes it clear as to which particular requirement(s) in the suite of professional standards are being built on for the purposes of ED-600.

### ETY

Yes, we think ED 600 has appropriate linkage to ISQM and other relevant ISAs including ISA 220 revised.

No other special considerations to be reported.

### MNP

Yes, ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

## 6. Public Sector Organizations

### AGC

Yes, we find the proposed standard has appropriate linkages to other ISAs and with the proposed ISQMs.

### AGM

Yes.

### AGSA

Yes, the linkages to ISA standards is appropriate to emphasise the importance and not to separate ISA 600 from other standards.

### GAO

Our review of the proposed International Standard on Auditing (ISA) 600 (ED-600) found that the International Auditing and Assurance Standards Board's (IAASB) linkage to other ISAs and International Standards on Quality Management (ISQMs) is sufficient. We believe that ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

## PAS

(a) Yes, ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs.

## 7. Member Bodies and Other Professional Organizations

### AE

a. Yes, ED-600 has appropriate linkages with other ISAs and proposed ISQMs. We agree that the requirements in ED-600 should build on requirements in the foundational standards and should focus on special considerations related to group audits.

### BICA

ED-600 does make appropriate linkages to other ISAs. Linkage to proposed ISQMs has been noted through the approach taken by using elements identified in ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.

### CAANZ-ACCA

Yes, in our view ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs.

### CaICPA

Yes, we agree that ED-600 has the appropriate linkages to other ISA's given the principle that the requirements of this group audit standard are intended to build upon rather than replace requirements in foundational standards.

### CPAI

We believe that ED-600 has appropriate links to other ISAs and with the proposed ISQMs.

### ICAS

We are supportive of the approach adopted to revising ISA 600 i.e. that ED-600's requirements and application material should address special considerations related to group audits and, therefore, should not repeat the requirements and application material in other ISAs. This places the focus very much on the subject matter in hand. We believe that ED-600 does contain appropriate linkages to other ISAs and the proposed ISQMs. This integration should also be better facilitated when the ISAs become available on the forthcoming digital standards platform.

### ICPAS

Response: In response to 1. (a), we believe the linkages are appropriate. In response to

### IIA

Yes.

### IMCP

Yes, ED-600 has established appropriate linkages to other ISAs and ISQM, especially to ISA 220 (Revised), ISA 315 (Revised) and ISA 330.

## INCP

Answer: Yes, in fact, in the framework, it emphasizes the consistent application of all ISAs.

## MICPA

The proposed ISA 600 (Revised) has appropriate linkages to other ISAs and with the proposed ISQMs.

## NYSSCPA

The ED is well-organized and links the proposed revised ISQCM standards and several “foundational” standards that are in the process of being contemporaneously revised. We do not know if other revisions contemplated for other standards or for projects currently in a research phase, such as data analytics (which could have an impact on many aspects of a group audit) might be part of a latter omnibus revision or integrated in some other way. We believe all cross-referenced standards should be hyperlinked in the final standard so all users can readily understand their impact when those links are opened and read.

## TFAC

Yes

## Q1(a) – Agree with comments

### 1. Monitoring Group

#### IAIS

Emphasis on the application of the quality management standards to the engagement. There are many challenges in undertaking an audit of group financial statements. It is therefore essential that there is appropriate quality management of the audit, and that responsibility for quality management is clearly assigned. Linking to ISA 220 Quality Control for an Audit of Financial Statements and the International Standard on Quality Management standards should be beneficial in this regard.

Generally, we agree there are appropriate linkages to other standards and ED-600 captures the special considerations that apply to a group audit. We would however suggest further clarity is needed in relation to ISA 220 and ISA 620 as well as ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements where the standard is currently silent.

#### ISA 220 – Quality management for an audit of financial statements

The IAIS is aware that differences in opinion can arise in a group audit context given their complex nature and this is especially the case given the complexities that exist in the insurance sector. Paragraph 34 of the ISA 220 Consultation paper (published February 2019) deals with how differences in opinion should be resolved, but ISA 600 does not seem to address how this would work in a group context, especially where a component auditor is not from the same audit network. The IAASB should consider providing greater guidance in this area, for example through the group engagement partner communicating the relevant policies and procedures for dealing with and resolving differences with the component auditor at an early stage.

#### ISA 620 - Using the work of an auditor's expert

In insurance group audits, auditors use specialists (actuaries, IT specialists) which are auditors' experts, in obtaining sufficient appropriate audit evidence.

Actuaries :

actuaries can be used to challenge liabilities estimates (reverse product cycle) which have a certain degree of uncertainty (accounting estimates)

auditors experts such as actuaries can be located at component level (domestic or not) or pooled in foreign countries (shared services centers).

IT specialists:

due to the computerized environment in insurance business, and

in the context of the IT development required in the future for the implementation of IFRS17.

Consistent with the above, the IAIS believes that ISA 620 can be very relevant for group audits where specialist knowledge and expertise is often required, especially in the insurance sector. As such, we recommend that ISA 600 address the group engagement team's responsibility in determining whether to use an expert. It should also consider the group engagement team's input into the nature, timing and extent of the expert's work for the group and the components audits. The use of experts and the interaction between the component and group auditor in deciding how to use these will be especially relevant in the context of the implementation of the new risk based approach.

ISA 250 Considerations of laws and regulations in an audit of financial statements

The IAIS believes that considerations of laws and regulations are crucial in a group audit as components might operate in different jurisdictions, which give rise to different laws and regulations, that may impact the group as a whole.

Specifically, insurance business is highly regulated and products, activities or processes may be subject to specific local requirements. Activities are often subject to authorisations and ongoing supervision.

The group engagement team should obtain an understanding of the legal and regulatory framework that may affect the group (including any components) and the sectors in which it operates. This will allow this team to identify and assess the risks of material misstatement. In addition, understanding how the components are complying with that legal and regulatory framework may also aid the group engagement team in understanding the risks of the firm and how these have been addressed by the component auditor. Indeed, local regulations can affect many areas like policyholders' protection and underwriting processes across countries and may have direct consequences for the liabilities booked in the accounts.

As an example, in France, 10 year liability insurance coverage related to building damage insurance is compulsory by law and can be offered by foreign insurance companies (within the European Union context of the freedom of services). When a foreign insurance company proposes such cover, it may be important that the group engagement team have knowledge of the French legal requirements related to this cover.

As such, we suggest that the application material in paragraph A56 "relevant regulatory factors" is included in the standard paragraph 24(a)(i)(new d). We also agree that two-way communication between the group engagement team and component auditors will be important to help to identify and mitigate audit risks (eg as noted in paragraph 4 of the exposure draft.)

## IFIAR

Quality management standards

Additional application material is necessary to understand the interrelationship between ED-600 and ISQM 1/ISQM 2 with respect to the responsibilities of the GET and reliance on the firm's system of internal controls. Specifically,

A 20 of ED-600 discusses common policies and procedures established by the firm that are common and may support the GEP by facilitating communication between the GET and CAs. We suggest clarifying the link between the policies and procedures of the firm or common network requirements or network service and how the GET may use this information for communications. It is also unclear how the automated tools or techniques discussed in A 45 are different from those discussed in A 44.

There should be stronger linkage to ISQM 1 in A 42 to A 44 regarding the competence and capabilities of the CAs.

A 39 of ED-600 should be enhanced to emphasize the GET's and CA's responsibility over compliance with the relevant ethical requirements, including those related to independence. Specifically, potential threats to compliance with independence requirements may arise in group audits with multiple components, including with respect to the allocation of fees and other remuneration arrangements. Further, personal financial investments in, or other financial arrangements made by component auditors with, the consolidated entity are clear independence issues and should be prohibited. We recognize that independence and ethical standards are handled by separate standard setting bodies, but it is vitally important that those charged with governance and the users of the audit report be aware of the existence of any such situation. We recommend additional guidance including a clear linkage to paragraph 17 of ISA 260, Communication with those charged with governance, to support the independence requirements.

We support the direction of the proposed standard to clarify the linkages with other standards and address special considerations in an audit of group financial statements, including highlighting the requirements when a component auditor (CA) is involved. However, as noted by our comments in this letter, we believe there are areas where: (1) the linkages to other standards could be further emphasized, (2) some requirements could be strengthened, and (3) application material could be added to further improve the standard thereby driving consistent application with the ultimate goal of enhancing audit quality.

We support the direction of the proposed standard to clarify the linkages with other standards and address special considerations in an audit of group financial statements, including highlighting the requirements when a component auditor (CA) is involved. However, as noted by our comments in this letter, we believe there are areas where: (1) the linkages to other standards could be further emphasized, (2) some requirements could be strengthened, and (3) application material could be added to further improve the standard thereby driving consistent application with the ultimate goal of enhancing audit quality.

## IOSCO

Paragraph 1 of the Paper states that:

"The International Standards on Auditing (ISAs) apply to an audit of group financial statements. This ISA deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (a group audit), in particular proposed ISA 220 (Revised), ISA 315 (Revised 2019), and ISA 330.3 (Ref: Para. A1–A2)."

We agree with the Board's approach to emphasize that all ISAs apply to group audits and to include all incremental requirements relevant to group audit engagements within ISA 600 (revised) as this results in

specific incremental requirements and application material from a group audit perspective being presented in one location.

Having said that, we believe the applicability of other ISAs to group audits would be clarified and strengthened if the first sentence of that paragraph is rephrased to state “In an audit of group financial statements, all other ISAs must be considered and, where applicable, applied, in addition to this ISA.”

Further, if the Board continues to list particular ISAs that are relevant, it may be worthwhile to also include ISA 260, Communication with Those Charged with Governance, and ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, both of which may have differing implications in group structures.

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We agree with the Board's approach to emphasize that all ISAs apply to group audits and to include all incremental requirements relevant to group audit engagements within ISA 600 (revised) as this results in specific incremental requirements and application material from a group audit perspective being presented in one location.

Having said that, we believe the applicability of other ISAs to group audits would be clarified and strengthened if the first sentence of that paragraph is rephrased to state “In an audit of group financial statements, all other ISAs must be considered and, where applicable, applied, in addition to this ISA.”

Further, if the Board continues to list particular ISAs that are relevant, it may be worthwhile to also include ISA 260, Communication with Those Charged with Governance, and ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, both of which may have differing implications in group structures.

### 3. Regulators and Audit Oversight Authorities

#### CEAOB

Linkages with other standards / Relationship with other standards

We support the changes made to address the interaction between ISA 600 and the other ISAs with additional emphasis on key aspects of other standards. The alignment in approach of the proposed standard with other recently issued standards is also acknowledged. However, the explanatory memorandum is clearer than ED 600 that the full suite of ISAs are the foundation on which ISA 600 is based. In the introductory paragraphs 1 and 2 of ED 600, the statements that “The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements” and “This ISA applies when the auditor had been engaged to audit group financial statements” could be read as stating that only ISA 600 and the ISAs referenced in ED 600 are relevant for group audits. ED 600 needs to make it clear in the requirement section that the special considerations set out in ISA 600 are in addition to those in the other standards. We further recommend specifying the reasons for including references to specific ISAs in ED 600 and for not addressing others.

In a similar vein, the statement in the introductory paragraph 6 that the group engagement partner is ultimately responsible for compliance with ED 600 should be changed to a requirement clarifying that the group engagement partner should ensure compliance with all the ISAs that are applicable to the group's circumstances.

## CPAB

### Quality management standards

Additional application guidance is necessary to understand the interrelationship between ED-600 and ISQM 1, ISQM 2 with respect to the responsibilities of the group engagement team and reliance on the firm's system of internal controls. Specifically:

A 20 in ED-600 discusses common policies and procedures established by the firm that are common and may support the group engagement partner by facilitating communication between the group engagement team and component auditors. We suggest clarifying to better understand the link between the policies and procedures of the firm or common network requirements or network service and how the group engagement team may use this information for communications. It is also unclear how the automated tools or techniques discussed in A 5 are different from those discussed in A 20.

There should be a stronger linkage to ISQM 1 in A 42 to A 44 regarding the competence and capabilities of the component auditors.

A 39 of ED-600 should be enhanced to reinforce the group engagement team's and component auditor's responsibility over compliance with the relevant ethical requirements, including those related to independence. Specifically, threats to independence may arise in group audits with multiple components with respect to the allocation of fees and other remuneration arrangements. Further, personal financial investments or other financial arrangements made by component auditors in the consolidated entity are a clear independence issue and should be prohibited. We recognize that independence and ethical standards are handled by separate standard setting bodies, but it is critical that those charged with governance and the users of the audit report are aware of the existence of any such situation. We recommend including additional guidance with a clear link to paragraph 17 of ISA 260, Communication with those charged with governance to support the independence requirements.

We support the direction of the standard to clarify the linkages with other standards and address special considerations in an audit of group financial statements. We further support the structure of ED-600 with the inclusion of subsections throughout the standard that highlight the requirements when a component auditor is involved.

There are areas where either the linkages to other standards could be strengthened or further requirements and/or application guidance is necessary to improve the special considerations in the audit of group financial statements to drive consistent application of ED-600, while taking into consideration specific facts and circumstances, as described below.

## IAASA

### Linkages with other standards / Relationship with other standards

We support the changes made to address the interaction between ISA 600 and the other ISAs with additional emphasis on key aspects of other standards. The alignment in approach of the proposed standard with other recently issued standards is also acknowledged. However, the explanatory

memorandum is clearer than ED 600 that the full suite of ISAs are the foundation on which ISA 600 is based. In introductory paragraphs 1 and 2 of ED 600, the statements that "The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements" and "This ISA applies when the auditor had been engaged to audit group financial statements" could be read as stating that only ISA 600 and the ISAs referenced in ED 600 are relevant for group audits. ED 600 needs to make it clear in the requirement section that the special considerations set out in ISA 600 are in addition to those in the other standards. We further recommend specifying the reasons for including references to specific ISAs in ED 600 and for not addressing others.

In a similar vein, the statement in introductory paragraph 6 that the group engagement partner is ultimately responsible for compliance with ED 600 should be changed to a requirement clarifying that the group engagement partner should ensure compliance with all the ISAs that are applicable to the group's circumstances.

## IRBA

We recommend that the IAASB considers additional linkages to the following ISAs:

The finalised ISA 220, Quality Management for an Audit of Financial Statements (refer to our response to Question 1(b) in this comment letter for the details);

ISA 230, Audit Documentation (refer to our response to Question 11(a) in this comment letter for further details);

ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (refer to our comment in paragraph 9 in this comment letter)

ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, to highlight what aspects of ISA 315 require the involvement of the group engagement team;

ISA 510, Initial Audit Engagements (refer to our response in paragraph 26 in this comment letter for more details); and

ISA 620, Using the Work of an Auditor's Expert, as the specialised nature of a group audit often requires the involvement of an auditor's expert.

We note the International Ethics Standards Board for Accountants' (IESBA) project to consider the definition of Engagement Team, and the relationship with ED-600. We appreciate this coordinated approach between the IAASB and the IESBA.

## MAOB

The AOB commends the commitment of the IAASB to establish stronger linkages in the proposed ISA 600 (Revised) to other ISAs, particularly to the proposed ISA 200 (Revised), ISA 315 (Revised 2019) and ISA 330. To further enhance these efforts, the AOB is of the view that a linkage to ISA 450 Evaluation of Misstatements Identified During the Audits should be added to Paragraph 44 (c) of the proposed ISA 600 (Revised).

In this regard, the group engagement team should request the component auditor to communicate all the corrected misstatements which the component auditor has identified during the course of their work. The nature of the corrected misstatements and the circumstances of their occurrence may indicate existence of other misstatements in other components' financial information within the group.

## UKFRC

We agree with the emphasis in ED-600 of the need to apply all relevant ISAs in a group audit and support how the requirements and application material refer to, or expand on, how other relevant ISAs are to be applied in a group audit. This is a significant improvement on the extant ISA 600, which was sometimes inappropriately treated as a stand-alone standard, resulting in a lack of compliance with the requirements of other relevant ISAs. In particular, we support the linkage to, and special considerations, in respect of:

ISA 210. We discuss this further in our response to Question 7;

ISA 220. We strongly support the linkages to ISA 220 and the related requirements and application material which address the special considerations in a group audit that are described in paragraphs 18-20 of the explanatory memorandum. However, in finalising the standard we strongly recommend that the important connection between the material related to the direction, supervision and review of engagement team members, and the robust two-way communications between the group engagement team (GET) and component auditors (CA) is better articulated in the requirements and application material of the standard. We have discussed this matter further in our response to Question 8(a) and (b);

ISA 230. We discuss this further in our response to Question 11;

ISA 260. We support the new requirements in ED-600.56. Depending on the circumstances of the group audit, the planned scope and timing of the audit, including the extent to which CAs are involved, may be extremely complex. Particularly where the GET have determined that it is more effective and efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not aligned with how group management or those charged with governance view (TCWG) the entities or business units comprising the group. Where such complex arrangements exist, it will be even more important for group auditors to communicate effectively with TCWG and group management;

Accordingly, we recommend the requirement for the GET to communicate an overview of the work to be performed at the entities and business units comprising the group is extended to include both TCWG and group management;

ISA 315 and ISA 330. We discuss this further in our response to Question 8 and 9;

ISA 550. We support the new requirement(s) for the GET to communicate the related party relationships or transactions identified by group management that are relevant to the work of the CA, and for the CA to communicate information about related parties not previously identified by group management or the GET; and

ISA 570. We support the new requirement(s) for the GET to communicate events or conditions identified by group management or the GET, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the CA.

## 4. National Auditing Standard Setters

### AUASB

Except for ISA 580 Written Representations, ISA 250 Considerations of Laws and Regulations in an Audit of Financial Statements and the recently approved ISA 220 Quality Management for an Audit of Financial Statements (ISA 220 Revised), the AUASB considers that ED ISA 600 has the appropriate linkages to other ISAs/ISQMs and ED ISA 600 deals sufficiently with the special considerations in relation to group engagements. The AUASB recommends the following additional linkages and special considerations:

Extant ISA 600 applies, as appropriate, when the auditor involves other auditors in the audit of financial reports that are not group financial reports. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location. Recently approved ISA 220 Quality Management for an Audit of Financial Statements (ISA 220 Revised), application material paragraph A1 indicates that this may still be the case under the recently approved new standards. The AUASB recommends that the introductory section to ED ISA 600 demonstrates this link to ISA 220 Revised as this linkage is not currently clear.

We recommend the proposed standard includes a specific link to the consideration of laws and regulations, with respect to the potential impact on the group audit for the group engagement team. For example, linkage to ISA 250 may be included in paragraph 44(b) of ED ISA 600.

While the AUASB supports the concept that the identification of a component is as determined by the auditor for purposes of planning and performing audit procedures, and this may or may not align with the group structure as viewed by management, the AUASB highlights that there may be practical difficulty in obtaining a management representation letter from component management (where deemed necessary). Written representations are generally requested from those responsible for the preparation of the financial report. Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation. While recognising that in practice for the group audit, the group engagement team may obtain a representation from group management responsible for the preparation of the group financial statements, the group engagement team may also require a component level management representation letter. Obtaining such a letter may be complicated in situations where component management cannot be clearly identified, as the auditor's view of a component may not necessarily align to the management structure of the entity. The AUASB recommends that application material in relation to ISA 580 Written Representations be included within the proposed ED-ISA 600 to provide guidance to the auditor in these situations.

## CAASB

ED-600 provides appropriate linkages to other standards and clarifies how the requirements would apply in a group audit, other than the linkages to ISA 315. As detailed in our responses to Questions 8 and 8(a), we believe further clarity is needed on how a GET applies the requirements of ISA 315 in a group audit. Stakeholders found the linkages to standards (other than ISA 315) and the related guidance and examples provided in the application material, such as A9, A19, and A39, appropriately outline the unique challenges that may be present in a group audit and explain how the requirements can be addressed.

## CNCC-CSOEC

Risk of a hidden re-introduction of the concept of •related auditors•

Extant ISA 600 was designed after long discussions and several re-exposures with the firm willingness not to favour the use of components auditors from the same network as the group auditor (i.e. •related auditors•) as opposed to component auditors who are not from the same network as the group auditor (i.e. •unrelated auditors•).

ED-600/ ISA 220 by considering component auditors as members of the group engagement team makes it almost impossible to use component auditors who are not from the network of the group auditor. Indeed the group engagement team will have to direct, supervise and review the work of component auditors, just the same as all engagement team members. This will make it impractical or even

impossible, to use non network component auditors and may even reduce the use of component auditors at all. This implicit reintroduction of the concept of unrelated auditors is even made more obvious or explicit by the new ISQM 1 which implies that component auditors who are not from network of the group auditor are, in fact, service providers.

With respect to the linkages to other standards, we have a concern about the discrepancy in the schedule for the entry into force of the proposed ISA 600 and the other ISAs or the proposed ISQMs. The proposed ISA 600 includes conforming amendments of the ISA 220 (Revised) to take into account

the specifics of group audits in applying ISA 200 (Revised). We consider that this interconnection of the standards with different application dates will generate text conflicts and difficulties to implement ISA 220 for group audits, especially with the change in the definition of engagement team since ED-600

states that component auditors are now members of the engagement team performing the group audit. Practical difficulties are expected to be significant when component auditors are not part of the same audit firm or network. Cases would not be that rare. This may be the case, for example, when, within a network, it is necessary to use the services of non-related auditors in certain countries because the network does not have the required expertise on site. This may also be the case if there is a change of audit firm at the parent company level only.

#### HKICPA

We consider ED-600 has appropriate linkages to other ISAs. In our view, linking the standard with other ISAs encourages a more detailed understanding of the standard and clarifies the roles and responsibilities of a group engagement team and group engagement partner. While the substance of such roles and responsibilities remain unchanged from the extant ISA 600, some practitioners in Hong Kong consider the extended linkages with other ISAs and the explicit description on roles and responsibilities can be onerous to less complex group engagements. We therefore recommend the IAASB to clarify how other ISAs could be applied in a scalable manner to the broad range of group audits that fall within the scope of ED-600 through further explanation and examples on factors to consider and what may be involved for less complex group audits.

#### MIA

While the enhancement on the linkages to other ISAs and with the proposed ISQMs are appropriate, the AASB is of the view that it may be helpful to the auditors in understanding the standards by including an explicit statement of the context for certain requirements within the wording of the requirement, rather than providing a footnote cross-reference back to the base requirement of the related ISAs. While we recognise the challenge in maintaining that fine balance of not making the standard too lengthy, we believe this aids the understanding of the standard, rather than flipping between the pages of standards.

#### ISA 220

While the AASB recognises that the group engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement, the AASB believes that the role and responsibilities of the group engagement partner must be practical when applied to large and complex group audit engagements.

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

component auditors may be perceived to be tasks needing completion with less ownership and accountability.

The AASB believes there is a lack of clarity around the principles established in ISA220 on what may constitute the ‘provision of information by the firm or others in the engagement team’ and what may constitute the assignment of responsibility to someone else in the engagement team. An example would be the assessment of competence and capabilities when the GET expects to use an auditor’s expert at the component. In such a situation, the component auditor would be best placed to make that assessment instead of being the provider of relevant information to the GET for their evaluation.

Perhaps additional enhancements or clarifications could be included to the effect that notwithstanding the GET’s planned approach for the group audit including scoping decisions at component level, it would not preclude component auditors from applying the necessary professional judgments and other planning decisions including the use of experts at the component level for separate component financial reporting purposes given the component auditors’ greater familiarity with the component and component management. Moreover, in certain of these components there may be sub-group audits that are necessary for statutory purposes for which the component is obliged to perform the sub-group audit at component materiality with the added complication of sub-group component auditors. The AASB is of the view there could be significant risk with regulatory challenge as to compliance with the proposed requirements of ISA 220. Similar concerns apply when considering how group structures are making increasing use of centralisation and shared services.

The AASB also emphasises the importance of cascading the responsibility and accountability for the quality of work to component auditors, while achieving a fine balance in the roles, responsibilities and accountability between GETs and component auditors. We are of the view that the concept of assigning responsibility for aspects of quality on the GET, for example, to component partners or a partner overseeing audit work performed at an SSC, is consistent with the principle of ISQM 1.

The AASB recommends the IAASB to further assess the practical operability of ISA 200 when applied to group engagement structures and how the Board seeks to achieve consistent alignment between the two standards with respect to specific responsibilities of the group engagement partner. Further clarity in the proposed ISA 600 is needed in the application of ‘shall determine’ requirements in the proposed ISA 220, taking into account varying circumstances of group engagement structures, for example, as in the context of paragraph 21.

ED-600 should place additional emphasis on the ability of the GET in relying on the firm’s policies and procedures as established in ISQM 1 to allocate and assign appropriate roles and responsibilities to individuals. These may be more practicable in situations where the group audit is performed by a single network firm. There could be various practical challenges in situations where the group audit is performed across several firms that are not part of the same network as the GET may not be able to appropriately assess the ISQM 1 compliance of other firms that are not in the same network.

The proposed revisions to the definition of engagement team, which would include component auditors, will affect the compliance with independence and ethical requirements as all component auditors will be expected to follow the

independence and ethical requirements that apply to the GET. The AASB recommends that the IAASB work closely with the International Ethics Standards Board for Accountants (“IESBA”) to assess the impact to the Code of Ethics.

### ISA 240, ISA 550 and ISA 570

The AASB welcomes the IAASB added requirements that address the aspects of related parties and going concern when component auditors are involved. However, consistent with our earlier point, these need to form part of the risk assessment considerations at the component level involving component auditors.

In addition, the AASB believes that fraud could equally be emphasised in the consideration. There may be challenges to address the risk of fraud faced by component auditors if they are seen to be only performing certain procedures or tasks. This may give rise to practical inability to apply the full spectrum of professional skepticism on fraud. For example, paragraph A9 presents challenges for the group auditor to remain alert to unconscious auditor biases of the component auditors located in various geographic regions.

In those circumstances when the GET chooses not to involve component auditors, it is essential that the GET gives appropriate due consideration to the risk of fraud, related parties, local laws and regulations that the GET may not be as familiar with and matters related to going concern that may exist at the component level and affect the risks of material misstatement or going concern evaluation at the group level. This could be further emphasised in the application material.

### ISA 330

The AASB supports the requirements in paragraph A115 which acknowledge 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 disclosures which may be helpful for purposes of evaluating the sufficiency and appropriateness of audit evidence in the context of the group financial statements.

The application material could be enhanced by having responses to assessed risks of material misstatement at the assertion level being also considered at the level of the group financial statements as those balances/transactions may be disaggregated across components. The aggregation risk increases especially for a large and complex group engagement as the number of components increases.

### ISA 580 and ISA 701

We also believe further linkage to ISA 580, for example, obtaining written representations that the group management has not imposed any restrictions on access to information and linkage to ISA 701 relating to the assessment of the impact of key audit matters at the component level on the group financial statement as another example, would be useful for inclusion within the standard. Additionally, the GET may need to consider the efficacy of the written representation from group management to cover aspects that may arise at the component level.

### ISA 315 (Revised 2019)

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

### NBA

The ED has appropriate linkages to other Standards, there is even some overlap with other Standards. For example there is a lot of attention for limited access, but the question is whether this is specific for group

audits. It comes more to the surface in group audits, but can be encountered in other audits as well. It is difficult to judge whether the linkages to ISA 220 and ISQM 1 and 2 are appropriate as these Standards have not been finalized yet.

We question whether it is necessary to describe in paragraph A39 the level of fees including their allocation and also refer to ISQM1 and the Code of Ethics where this subject matter is described. We consider it sufficient that it is described there.

## NZAuASB

The NZAuASB is of the view that there is a mixed result in this regard. In some areas ED-600 is successful in achieving the objectives stated in the question 1.

The NZAuASB is of the view that there is a mixed result in this regard. In some areas ED-600 is successful in achieving the objectives stated in the question 1. These include:

Paragraphs 15 to 17 and corresponding application guidance, which address special considerations in applying ISA 210, specifically considering access issues.

Paragraph 24 and corresponding application guidance, which address how applying the requirements of ISA 315 (Revised 2019) for understanding the entity and its environment, the applicable financial reporting framework and system of internal controls may have specific considerations for a group audit. The application material to support paragraph 24 is directly relevant to a group engagement, and provides necessary and helpful guidance for conducting a group engagement (e.g. by referring to risks that are particularly relevant to a group structure; special considerations that apply when a group prepares consolidated financial statements; and some significant elements for internal controls in a group structure and how they may affect audit).

Paragraph 29 and corresponding application guidance, which address a special form of materiality that would only apply in a group audit situation (i.e. the component performance materiality).

Paragraph 55, which addresses how the requirements in ISA 265 for communicating significant audit findings apply to audit findings at a component level.

However, there are other instances where ED-600 is not as successful in achieving the stated objectives. For example:

Paragraph 31 simply reminds the group auditors that they are responsible for applying ISA 315 (Revised 2019) when identifying and assessing the risks of material misstatements. The application guidance (paragraphs A78) repeats what is already in ISA 315 (Revised 2019) without adding anything specific to group audits. The same is true for paragraph A80, where guidance already included in ISA 240 is repeated.

Specific considerations in applying these standards in group audits seem to arise when component auditors are involved. Paragraph 32 of the ED does address these considerations. In this light, paragraph A79 is also superfluous and could be built into paragraph A82. However, even then, the requirement could be clarified by specifically requiring the group auditor to:

Consider whether they should involve component auditors in risk identification and assessment at component level (we note that Appendix 1 provides appropriate guidance to help auditors in this relation).

If yes, consider what are the respective responsibilities and how best to have these communicated, documented and evaluated etc.

In a similar fashion paragraph 33 simply reminds auditors that they are required to apply ISA 330. The real considerations of applying ISA 330 for group engagements include:

Should they involve component auditors as part of their response? (In this respect, we note that paragraphs A86 to A90 provide relevant and useful guidance about this.)

If yes, what are the respective responsibilities and how best should they be communicated, documented and evaluated? (Paragraphs A96 to A101 provide useful and relevant guidance in this regard.)

Paragraph 47, relating to applying ISA 560, is similarly void of any specific group engagement connection.

ED-600 does seem to provide strong linkage to ISA 220 (Revised). Paragraphs 12 (relating to leadership responsibilities), 20 (ethical requirements), 21-22 (engagement resources), and 23 (engagement performance) all link to ISA 220, and the corresponding application material provides relevant and helpful guidance.

Despite that, the application guidance lacks a comprehensive framework to reflect how ISA 220 requirements may apply to a group audit. The NZAuASB considers that it may be helpful to provide specific guidance for the group auditor to look at the application material through different “lenses”, for example:

Lens

Aspects to consider

Who are the component auditors?

Same firm, network firm, different firms

Similarity of regulatory and audit monitoring environment

Similarity of cultures, languages, education system etc

What is their expected level of involvement?

High (e.g. in all stages of audit)

Moderate (e.g. fully involved in some stages)

Low (limited involvement to perform specific procedures)

What is the expected level of assignment of responsibilities?

High (e.g. highly competent with in-depth knowledge of the component trusted with high level of autonomy in how they go about their responsibilities)

Moderate (e.g. the group engagement team provides principle-based instructions and allows a moderate level of autonomy to the component auditor)

Low (detailed and comprehensive instructions for the component auditors regarding their responsibilities)

What is the expected level of impact from the involvement of the component auditor on the overall audit conclusion?

High (e.g. audit evidence from the work undertaken by the component auditor is a major contributor to the group auditor’s conclusion about a significant risk at the group financial statements)

Moderate

Low

What is the expected level of access to the underlying information?

High (e.g. access to the audit file as if it were in the group engagement team head office)

Moderate (e.g. a good level of access, but not to all documents)

Low (significant restrictions)

Finally, in relation to other special considerations that may apply to a group audit engagement, we would like to draw attention to matters highlighted by the Accounting and Finance Association of Australia and New Zealand (AFAANZ) in its response to the IAASB, specifically how factors affecting audit team identity in distributed teams may affect the team communications and relationship dynamics between team members. The NZAuASB's stakeholders also cite as one of the most significant practical challenges in group audits the challenges in leading an engagement team that is composed of members distributed across locations with different characteristics (e.g. different languages, time zones or cultures). The NZAuASB is of the view that it is impractical for an auditing standard to appropriately address such challenges, and would encourage the IAASB to consider developing guidance on the importance to audit quality of having a shared team identity, characteristics and factors that may enhance or impeded the team's development, and how these characteristics/factors can be reinforced/managed.

## 5. Accounting Firms

### BDO

We believe that the numerous references to other ISAs throughout the requirements and the application material do provide appropriate linkage and help to convey the general principle that ED-600 deals with special considerations that apply to an audit of group financial statements over and above all other relevant ISAs.

We also agree with the approach used in structuring ED-600 paragraphs 12 – 23 to align with the main elements of proposed ISA 220 (Revised). This again emphasizes that ED-600 relates to applying the quality management standards in the context of an audit of group financial statements.

However, the current approach in ED-600.1, ED-600.A1 to ED-600.A10 provides a broad reference to other ISAs and proposed ISQMs but does not provide sufficient application guidance for the group engagement team to implement the requirements of the other ISAs in the context of a group audit. For example, it is quite challenging in ED-600.A9 for the group auditor to remain alert to unconscious auditor biases of the component auditors located in other geographic regions. It would be better if ED-600 provided clearer or more specific application guidance on the proposals made in ED-600.A1 to ED-600.A10 to facilitate consistent understanding of the application of ED-600.

### EYG

ED-600 generally has appropriate linkages with other standards, adequately addresses special considerations and focuses on incremental requirements that apply in a group audit environment.

We have the following specific suggestions and comments to further enhance the linkages with other standards:

The term "engagement team" as defined in proposed ISA 220 (Revised) includes component auditors, which is an important linkage to how proposed ISA 220 (Revised) is intended to be applied to group audits (i.e., all requirements for the engagement team extend to component auditors). However, this linkage of

“engagement team” to “group engagement team” and “component auditors” is not explained until paragraph A13 of ED-600. We recommend highlighting this linkage more visibly up front in the standard, perhaps in the Scope of this ISA section paragraph 3 along with a footnote that links to the definition in proposed ISA 220 (Revised). It would be useful to specifically explain that ED-600 provides special considerations on the application of the proposed ISA 220 (Revised) requirements by the group engagement partner, group engagement team and component auditors.

Linkages to ISQM 1 could be enhanced by:

Further explaining in ED-600 paragraph A2 that the firm, as part of its system of quality management may set policies or procedures to address group engagement team responsibilities, including related to the involvement of component auditors.

Indicating in the introductory sentence of ED-600 paragraph A20 that the network requirements and network services concepts referred to in this paragraph are described in ISQM 1.

Linkages to ISA 315 (Revised 2019) could be enhanced by:

Providing guidance on the linkage between significant classes of transactions, account balances and disclosures at the group level and the work performed at the components. ED-600 appears to be silent on this new concept introduced in ISA 315 (Revised 2019) and we believe that guidance is needed particularly on whether identifying risks of material misstatement by component auditors based on assigned component performance materiality results in the identification of significant classes of transactions, account balances and disclosures at the component level. Refer to our response to Question 8 for further comments.

Providing guidance on how material account balances and disclosures in the group financial statements that have not been determined to be significant accounts and disclosures may be addressed in group audits in accordance with ISA 330.18. An example of the use of automated tools and techniques may be particularly relevant.

Acknowledging in the application material that addresses understanding the group and its environment, the applicable financial reporting framework and the group’s system of internal control that some extent of relevant information may have been obtained through the procedures regarding acceptance or continuance of the client relationship or the group audit engagement. Furthermore, it could be explicitly acknowledged that ISA 315 (Revised 2019) requires such information to be considered (ISA 315 (Revised 2019) paragraph 15(a), A38 and A124).

Providing application material to ED-600 paragraph 24(c) (iii) that requires an understanding of the consolidation process used by the group. In the context of ISA 315 (Revised 2019), it would be helpful to clarify whether this is viewed to be part of the required understanding of the financial reporting process.

Enhancing the application material in ED-600 paragraph A60 that explains when tests of operating effectiveness of identified controls are planned, there is also a requirement to understand the design and implementation of those controls. While this paragraph is appropriately linked to ISA 315 (Revised 2019) paragraph 26(a), ED-600 seems to only refer to tests of the operating effectiveness of controls. ED-600 could also emphasize the other controls for which ISA 315 (Revised 2019) prescribes evaluation of design and implementation, such as controls that address a significant risk and controls over journal entries, including consolidation entries and other adjustments, which could also be common across the group.

We note that there are no special considerations included in ED-600 related to the ISA 240 requirements that address the approach in a group audit to identifying, assessing and responding to risks of material

misstatement due to fraud, other than a list of potential information sources in paragraph A80. As indicated in our response to Question 8, the relationship of ED-600 with ISA 240 is in need of further clarification.

## GT

Definition of engagement team and group engagement team – we note that the definition of component auditor has been revised to reflect the amendment to the definition of engagement team in ISA 220 (Revised), which incorporates the component auditor into the definition of the engagement team. Whilst we appreciate that this change is driven by the foundational standard, we believe that it is important that ED-600 highlights this change and explains how this interacts with the definition of group engagement team earlier in the standard. We would suggest that this should be included in the introduction to the standard and as essential application material to the definition of group engagement team and not included in the application material itself, where it may easily be missed by users of the standard.

In addition to the linkages to certain ISAs in ED-600, we are of the view that closer linkages to ISA 500 are needed in ED-600. We are also concerned with the potential impact on a group audit of the linkages created in ED-600 to the foundational standards in a number of circumstances, as follows:

### ISA 220 (Revised)

ISA 220 (Revised) now incorporates the component auditor into the definition of the engagement team. We are of the view that there may be unintended consequences to this change particularly in relation to the application of relevant ethical requirements, the application of the firm's policies and procedures when the component auditor is not from the same firm as the group engagement team, and, perhaps most importantly, legal ramifications to such a change. For example, component auditors used from a firm that is not part of the group engagement team's network is now considered to be part of the engagement team. If legal proceedings were brought against the group auditor, it is not clear whether those component auditors, or the particular individual(s) from the component auditor's firm, would now be brought into that litigation because they are a member of the engagement team.

Further, whilst we agree that the group engagement partner should be required to take responsibility for the appropriate direction and supervision of the group engagement, we are of the view that the direction and supervision requirements in ISA 220, when applied in a group audit engagement, need to accommodate the differences in circumstances in a group engagement. That is, there should be the flexibility within ED-600 to allow the group engagement partner, where local audits are performed, to exercise professional judgment in determining the appropriate manner in which to use that work for the purposes of the group engagement. Absent appropriate coordination between the group engagement partner and the partner on the component audit, this may increase the cost of performing the audit without a corresponding increase to the quality of that audit.

### ISA 315 (Revised 2019) and ISA 500

We note that the proposals in ED-600 develop, to a large extent, the concepts in ISA 315 (Revised) for the purposes of a group audit. Whilst we acknowledge that these concepts apply to a group audit, we are of the view that the concepts have not been sufficiently adapted to the nature and circumstances of a group audit. In this respect, we highlight the following examples:

As currently drafted, the proposals in ED-600 imply that all the documentation requirements in ISA 315 (Revised 2019) would equally apply in a group audit engagement conducted under ED-600. Following this through would lead us to the conclusion that the scoping and risk assessment documentation in the group

audit engagement file would be required to include an understanding of every significant class of transaction, account balance and disclosure in every component that comprises the group.

Paragraph 42 of ED-600 requires that the local audit be completed for the work performed in support of that local audit also to be used in support of the group audit opinion. In practice, local statutory audits are often finalised, and the auditor's report issued after the group audit opinion has been issued (that is, the audit work has been completed, but the local financial statements are still being prepared). As such this may result in duplication of many procedures at the component, which again increases the cost of performing the audits, but may not result in an improvement in quality.

Conversely, ED-600 is not clear with respect to the nature and extent of how to apply all the requirements in ISA 315 (Revised). For example, ISA 315 (Revised) requires the auditor to obtain an understanding of the entity's information system. In a group audit engagement, it is not clear whether this requirement extends to the information systems of the entire group, is limited to the group level information systems, is limited to components at which audit procedures are performed in support of the group audit opinion or only certain of those entities based on the extent of the audit procedures to be performed.

We recommend that ED-600 be amended to balance the concepts of ISA 315 (Revised) with those of ISA 500, such that a top-down risk-based approach may be followed for a group engagement that acknowledges and provides flexibility in the requirements based on the source of the audit evidence to be used in support of the group opinion and that allows for proportionate documentation based on both the risk assessment and the source of the evidence.

#### ISA 330

In relation to the linkage to ISA 330, we note that paragraph 18 of that standard requires the auditor to design and perform substantive procedures for each material class of transactions, account balance and disclosure, irrespective of the assessed risk of material misstatement. The application of this requirement in a group audit is unclear, including whether the application of the requirement at the financial statement line item or a level below this. The introduction of ISA 315 (Revised) has further added to this uncertainty with the introduction of significant classes of transactions, account balances and disclosures. We are of the view that this requirement should be applied at the financial statement line item level, and that guidance is needed to indicate whether additional procedures are necessary due to the relative size of the amounts in comparison to the group (not necessarily amounts solely greater than materiality). Absent such clarification of the requirement, unnecessary audit procedures may be performed.

We are concerned by the extent of alignment of ED-600 with ISA 315 (Revised 2019). Whilst we agree that the risk-based concepts in ISA 315 (Revised 2019) should apply to a group audit, we believe that this should not be to the exclusion of concepts in ISA 500, including the types of audit evidence available and how that audit evidence is collected. In particular, in this respect, we highlight the requirements restricting the use of audit opinions provided by component auditors on subsidiaries of the group for statutory or other purposes to circumstances where the local audit has been completed. In a group audit engagement across many jurisdictions, it is common for local audits to be performed at various times; to coordinate such audits simultaneously through to completion would likely be impossible. As such, the proposed restriction may unnecessarily increase both the time to perform the group audit engagement and the costs of doing so. We recommend that, consistent with existing guidance, the group engagement team has the ability to make the determination of whether the work performed is sufficient for the purposes of the group audit engagement, irrespective of whether the local audit is 'complete', taking into account the requirements and guidance in both ISA 315 (Revised) and ISA 500.

## KPMG

We consider that ED-600 generally has appropriate linkages to the other ISAs, including the proposed ISQMs and ISA 220 (Revised).

We acknowledge the changes made to align the overall audit approach, and individual requirements in respect of risk identification and assessment more specifically, with those of ISA 315 (Revised). However, we recommend that additional clarification be made regarding the importance of having the group auditor take a “bottom-up” approach to risk identification and assessment, as well as a “top-down” approach. By a bottom-up approach we mean that the standard should strengthen proposed A79 by emphasising:

The need for the group auditor to ensure that the component auditors’ knowledge and experience is properly brought to bear in identifying and assessing risks; and

The need for the group auditor to evaluate whether and to what extent risks identified by these component auditors at their components may have broader applicability to the group financial statements as a whole.

This may be necessary for certain group audit engagements, in particular, for large and complex groups, to ensure that the component auditors’ knowledge and experience is properly brought to bear in identifying and assessing risks and in responding appropriately to these, especially given the “in the aggregate” concept of risks of material misstatement. Please refer to our response to Question 8. We suggest, in our response to that question, that the IAASB consider clarifying the important role of the component auditor in this regard, which paragraphs 54 and 61 of the EM describe clearly, and which we do not believe to be incompatible with ISA 315 (Revised), noting that ED-600 would focus instead on the special considerations relating to risk identification and assessment in a group audit and the evaluation by the group engagement team as to whether, based on the work performed by the group engagement team and the component auditor, sufficient appropriate audit evidence has been obtained to identify and assess the risks of material misstatement to the group financial statements.

## MAZ

As a principle, every matter related to ISA 600 should be in the standard ISA 600 and not in the other standards (or just as cross-referenced). The fact that the joint audit definition has been removed from ISA 600 and is only planned to be in the conforming amendments of ISA 220 in application material makes the link less visible. We suggest keeping the definition of joint audit as it is in the extant standard as joint audit is used also in group audit, in addition to the conforming amendment of ISA 200.

We believe that the linkages could be improved:

The new definition of the engagement team included in the ISA 220, which does reference the possibility of a joint auditors or a component auditor outside of the firm’s network, and the consequences implied in the other standards such as ISQM 1 and 2, raises certain practical challenges for using auditors who do not belong the same network/firm as the Group engagement team. This narrow definition of the engagement team is reinforced by the examples of interactions (A44 and A46) between the group engagement team and the component auditors included in the ISA 600 which are only oriented towards component auditors of the same network. We believe that the implications from the new definition of the engagement team and the requirements of ISQM1 will create, in practice, an impediment to using firms that are not from the same network/firm, which we believe will lead to reduced competition for multinational engagements and could lead to lower quality on some engagements.

In addition, and as mentioned in our cover letter, we believe it would be helpful to have an explicit clarification that this ISA does not require that a minimum percentage of the audit of a group is performed by the group auditor's network. We observe that in practice, some firms are explaining to their clients that auditing more than x% is a requirement of the standard.

Also, we suggest keeping the definition of joint audit as it is in the extant standard as joint audit is used also in group audit. The fact that the joint audit definition has been removed from ISA 600 and is only planned to be in the conforming amendments of ISA 220 in application material could be misinterpreted to mean that group audits are not considered in ISA 600.

As a principle, every significant standard that is impacted by ISA 600 should be addressed in ISA 600 and not in the other standards (or just as cross-referenced).

Last, to enhance audit quality, the standard should emphasize that more interactions (especially regarding the assessment and views on audit risks, including operational ones) from the planning stage (including topics of interest such as scoping, management estimates, fraud, and going concern) between auditors and the audit committee would be helpful in order to assist the component auditors perform their own planning and to ensure they are applying appropriate professional skepticism.

## MAZUSA

With respect to the linkages to other standards:

Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?

Response: ED-600 does have appropriate linkages to the other ISAs and with the Proposed International Standard on Quality Management (ISQM), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM 1) and Proposed ISQM 2, Engagement Quality Reviews (ISQM 2), except as noted in our answer to (b) below.

Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

Response: ED-600 generally addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

The new definition of the engagement team included in the Proposed International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements (ISA 220 (Revised)), does not reference a component auditor outside of the firm's network, and the consequences implied in ISQM 1 and 2, raise certain practical challenges for using auditors who do not belong to the same network/firm as the Group engagement team. The definition of a "component auditor" in paragraph 9(c) of ED-600 uses the term "engagement team" which is referenced to the definition in ISA 220 (Revised) paragraph 10(d).

ISA 220 (Revised) defines the engagement team as follows:

"Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an auditor's external expert engaged by the firm or a network firm,<sup>13</sup> and also excludes individuals within the client's internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)."

Such definition does not specifically address the use of partners or staff from non-network firms. ED- 600 paragraph A13 appropriately includes “a firm that is not a network firm” in its explanation of the component auditor definition. We believe that the inclusion of the footnote reference in paragraph 9(c) of ED-600 could lead to a misunderstanding as to who may serve as a component auditor and thus, we recommend that the footnote reference be deleted. We believe that the implications from the new definition of the engagement team, as presently drafted, and the requirements of ISQM 1 will create, in practice, an impediment to using firms that are not from the same network/firm.

Reference is also made in this response to our comment letter dated July 1, 2019 to the Board in response to ISQM 1, 2 and ISA 220 (Revised) and other specific comments related to ISA 220 (Revised), in particular as it relates to this response and the need expressed for transitional guidance in the circumstance where ED-600 as adopted will lag the effective date of ISA 220 (Revised).

### **MGN**

ED-600 has, in the main, appropriate linkage to other ISAs and with the proposed ISQMs (as far as we are aware). We are however concerned about the linkage of the proposed ISA with proposed ISA 220

We have some concerns about the linkage of the proposed ISA with proposed ISA 220. The definition of group engagement team in the proposed ISA 600 excludes component audits but the definition of engagement team in proposed ISA 220 includes component auditors as part of the engagement team. Our concerns relate to the group engagement partner’s responsibilities regarding direction, supervision and review and the practical issues of fulfilling those responsibilities in the context of a transnational group audit with component auditors. Our concern is that this might be perceived as undermining the principle of component audits, in particular component audits performed by a component auditor that does not belong to the same network as the group auditor. Many audit methodologies and tools including those sourced by third party providers will need to be rewritten/reprogrammed to take account of some of the approach changes which will be necessitated by the proposed revised ISA. This could have a major impact, especially on mid-tier and smaller audit practices. We are concerned that the impact of the revisions may not in all cases be proportionate to the amount of improvement in audit quality that will result, particularly in the light of the anticipated effective date. We believe an effective date of December 2023 year ends will not give firms (or indeed third-party providers) sufficient time to revise, update and appropriately train staff on audit tools and methodologies. We strongly believe that the effective date should be December 2024 year ends.

### **NEXIA**

Yes, linkages to other standards seem appropriate, except for matter described in (b) below.

We believe ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs.

United Kingdom 2

United Kingdom 1

SOUTH AFRICA

SINGAPORE

Linkage with other standards - The ED600 (Revised) has further clarified the roles and responsibilities of a group engagement team/partner by linking the standard with other ISAs, and as a result:

- The extended linkages with other ISAs may have broaden the scope of the standard, and also widen the group engagement partner's roles and responsibilities; and

- The extended, stricter and explicit description on the roles and responsibilities has removed the flexibility in the extant ISA 600 and will expose the group engagement partner to a higher risk in case of deficiency.

a) ED-600 does have appropriate linkages to other ISAs particularly in relation to the risk – based approach and the “stand-back” approach which is consistent with changes made to ISA (UK) 570 Going concern although this could be articulated more clearly within this standard itself. This message is hidden within the words of paragraphs 49 to 51 when it could just be explicitly stated. However, the number of consequential amendments to other standards seem to be numerous and this is off-putting. There is also some duplication for example, paragraph 15 appears to repeat the requirements of ISA 210 and it is unclear why this is necessary and why this has been brought into the standard.

For the most part, we believe there is sufficient linkage to other standards. However, per ISA 220:

“The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ISA, for:

(a) Implementing the firm's responses to quality risks (i.e., the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm; (Ref: Para. A5–A8)

(b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses beyond those set forth in the firm's policies or procedures; and (Ref: Para. A9–A10)

(c) Providing the firm with information from the audit engagement to support the design, implementation, and operation of the firm's system of quality management that is required to be communicated in accordance with the firm's policies or procedures. (Ref: Para. A11)”

How should the definition of “engagement team” in proposed ISA 220 (Revised) be applied in the context of a group audit? Since ED-600.9(j) implies that component auditors are part of the engagement team, therefore, there is concern over the engagement partner being solely responsible for another firm's quality management. In practice, a component auditor may not necessarily be a member of a network firm and subject to same quality management standards.

(a) No comment.

(a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?

(b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

An area of concern is how the definition of “engagement team” in proposed ISA 220 (Revised) will be applied in the context of a group audit.

ED-600.9(j) implies that component auditors are not part of the group engagement team, which accords with how we understand a group audit to work.

However, ED-600.9(c) says “A component auditor is a part of the engagement team.”

The vast majority of ED-600's requirements apply to the group engagement team only, but there are a few requirements for the “engagement team” as a whole (eg to apply professional scepticism). It would make

sense if the intention is for “engagement team” to mean “group auditors and component auditors” in the context of ED-600, but if this is so a different phrase needs to be found.

If this is not so, we do not understand how ED-600.9(c) interacts with the requirement in paragraph 4 of proposed ISA 220 (Revised):

“The engagement team, led by the engagement partner, is responsible, within the context of the firm’s system of quality management and through complying with the requirements of this ISA, for:

(a) Implementing the firm’s responses to quality risks (i.e., the firm’s policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm; (Ref: Para. A5–A8)

(b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses beyond those set forth in the firm’s policies or procedures; and (Ref: Para. A9–A10)

(c) Providing the firm with information from the audit engagement to support the design, implementation, and operation of the firm’s system of quality management that is required to be communicated in accordance with the firm’s policies or procedures. (Ref: Para. A11)”

This does not work in the context of a group audit, because there is no single engagement team in this sense. There would be significant practical challenges for group engagement partners wishing to comply with their responsibilities under proposed ISA 220 (Revised) regarding engagement resources and direction, and supervision and review of the component auditors’ work. This is especially so because paragraphs 25, 29 and 30 of proposed ISA 220 (Revised) prevent the group engagement partner from assigning certain of those responsibilities to others.

United states 1

United States 2

HONG KONG

## PKF

We believe that there are appropriate linkages to the other ISAs as well as with the proposed ISQM, in specific client acceptance and continuance (including ethical requirements), engagement resources and engagement performance. We have made further observations and comments in our response to Question 7 of this response letter.

Although special considerations with respect to other relevant ISAs have been sufficiently addressed in paragraph 1 and throughout ED-600, the task force, should also consider including special considerations for Going Concern (ISA 570), but at the component level, and Audit Sampling (ISA 530).

## PwC

ISA 220 (Revised)

Responsibilities of the engagement partner

While we acknowledge the concept in ISA 220 (Revised) (“ISA 220”) that the engagement partner “shall take responsibility” for certain matters and can assign tasks, actions or procedures to others, we remain concerned about the practical operability of ISA 220 when applied to large/complex group audit engagements and the potential behavioural implications for the work of component auditors.

In redrafting ISA 600 to emphasise the top-down, risk based approach and overall responsibility of the group engagement team for audit quality in the group audit, the sense of ownership by component auditors for the judgements and decisions they make – and in some circumstances may be best placed to make – may have inadvertently been diminished too far. We are concerned that this could have unintended consequences on the professional scepticism and professional judgement brought to bear in the work performed at components. See our response to question 2.

As explained in our principle 3, we believe that group audit quality is most effectively achieved when accountability for different aspects of audit quality is assigned to those who are best placed to influence those aspects. This requires an appropriate balance in the roles, responsibilities and accountability for audit quality by both group engagement teams and component auditors. Further clarity is needed on the application of the new principles established under ISA 220 (Revised) when applied to varying group engagement structures.

At a minimum, we believe there is a lack of clarity around the principle established in ISA 220 on what may constitute the “provision of information by the firm or others in the engagement team” and what may constitute the assignment of responsibility to someone else on the engagement team. For example, ISA 220 requires that the engagement partner “shall determine that members of the engagement team, and any auditor’s external experts..... collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement”. When a component auditor uses an expert, the component auditor is best placed to determine the competence and capabilities of the expert in that jurisdiction. However, if a component auditor were to make such an evaluation and convey “information” about that to the group engagement partner, we believe there is risk of regulatory challenge as to compliance with the requirement of ISA 220, even though the actions are clearly in the best interest of audit quality.

Similarly, we support the Board’s intent to ensure the component auditor has sufficient time to perform the work to which they are assigned, as we believe this is important when executing a high-quality group audit. However, it is not clear in the proposed standard what the group engagement partner is being required to perform, incremental to what is addressed in ISQM 1, in order to determine that the component auditor has sufficient time to perform the assigned audit procedures at the component. We note this mirrors the requirement in ISA 220, but we believe it could cause practical challenges in a group audit if what is expected of the group engagement partner is not sufficiently clear in the standard. In most cases, we believe the group engagement partner will be relying on communication from the component engagement partner as a basis for making such a determination, but it is unclear whether additional efforts would be expected and what would be expected to be documented.

We believe ISA 600 needs to address these practical considerations. Bringing clarity to the appropriate assignment of responsibility will avoid different interpretations between auditors and regulators on the application of ISA 220 principles and requirements to a group audit.

We therefore believe the standard needs to acknowledge and illustrate that there are others in the group audit who can assume responsibility for the quality of work performed, without diminishing the overall responsibility and accountability of the group engagement partner and team for the decisions and judgements they need to make, or their necessary involvement in the work of component auditors to have a basis for doing so. For example, we believe there would be merit in recognising that component audit teams are led by appropriately senior leaders, such as a partner or director (depending on the nature of the component), who act as an additional layer of responsibility for the quality of the work performed at the component level.

We believe this concept of assigning responsibility for aspects of quality on the group engagement, for example to component partners or a partner overseeing audit work performed at a SSC, is entirely consistent with the principle being established in ISQM 1, where those with ultimate responsibility for the system of quality management assign operational responsibility to other individuals as well as responsibilities for specific aspects of the system, while still retaining ultimate responsibility for the evaluation and conclusion over the system. The intent is not to reduce the overall responsibility and accountability of the group engagement partner but recognise that, in a group audit, others are needed to effectively manage quality across the entire audit in the same way as is needed across a firm's system of quality management.

We urge the IAASB to further assess the practical operability of ISA 220 when applied to group engagement structures, and also assess how the Board seeks to achieve consistent alignment between the two standards with respect to the specific responsibilities of the group engagement partner. Further clarity would also be beneficial in proposed ISA 600 to illustrate the practical application of "shall determine" requirements in ISA 220, taking into account varying circumstances of group engagement structures. We also suggest, in this regard, that an illustrative example(s) of how the specific requirements in ISA 220 would be expected to be applied in a complex multinational group engagement structure(s) (e.g.,

with a number of components and a spectrum of work being performed across components) is necessary to ensure auditors can sufficiently understand the interaction of these requirements with ISA 600.

In that context, we recommend that additional emphasis is also given in proposed ISA 600 to the ability to rely on firm (and network) policies and procedures, established in accordance with ISQM 1, with respect to the allocation of acceptable roles and responsibilities to individuals in accordance with the firm's policies and procedures.

#### Definition of engagement team

We believe that significant uncertainty remains as to the practical implications of the change in ISA 220 to include component auditors within the definition of engagement team, particularly insofar as it affects compliance with independence and ethical requirements. This is likely to be heightened when component auditors are not from within the same network as the group engagement team – such circumstances are increasing as a result of mandatory audit firm rotation in some jurisdictions. It is important that the IAASB works closely with the IESBA to reflect on the outcomes of the current IESBA project to assess the impact to the Code of Ethics of the change in the definition of engagement team, and to determine any consequential changes that may be needed in proposed ISA 600. The proposed wording in ISA 600 will not remove the ambiguity that currently exists regarding the ethical requirements with which component auditors applying the IESBA Code of Ethics are expected to apply. We believe the ambiguity needs to be resolved in the IESBA Code.

#### ISA 240, ISA 550 and ISA 570

We welcome the specific requirements that address consideration of related party relationships and going concern when component auditors are involved. However, we believe these requirements need to be given more prominence.

Consideration by the group engagement team of related party relationships and going concern, and how the group financial statements may be impacted by these matters at a component level, is important in all group audits. We are concerned that the standard underplays this point by only addressing these matters under a requirement for "when component auditors are involved". This risks failing to identify something at the

component level that may not be immediately obvious at the group level when the group engagement team does not involve component auditors. In those circumstances, it is essential that the group engagement team gives appropriate due consideration to the risk of fraud, related parties, compliance with laws and regulations, and matters related to going concern that may exist at a component level and affect the risks of material misstatement or going concern evaluation at the group level. We believe the standard needs to address the special considerations in these areas in all audits and therefore be included as core requirements, in addition to any additional requirements for when component auditors are involved.

As noted, we believe consideration of risk of fraud and compliance with laws and regulations are equally important and should form part of the required matters explicitly addressed in these requirements.

### ISA 330

We recommend that the application material make clear that when component auditors perform risk assessment procedures, the determination of the significant classes of transactions, account balances and disclosures and their relevant assertions relate solely to the group financial statements, and that responses at the assertion level (ISA 330 paragraph 18) are also considered at the level of the group financial statements and not at each component across which those balances/transactions may be disaggregated.

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

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

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

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

### RSM

Yes, in our view ED-600 has appropriate links to the other ISAs and proposed ISQMs. We believe ED-600 successfully articulates the unique aspects of a group audit engagement and sufficiently builds on the foundational standards, in particular ISA 315 (Revised), ISA 330, and proposed ISA 220 (Revised).

We welcome the links to ISA 240, in particular, the application material in paragraph A80, which clarifies the responsibilities of the group engagement team in this area. We suggest that a further link to paragraph 16 of ISA 240 could be considered in paragraph A70 to reinforce the application of professional scepticism during the group engagement team discussion on fraud.

We particularly welcome the clarity in paragraphs 27 and 28 on the responsibilities of the group engagement team regarding related parties and going concern under ISA 550 and ISA 570 when communicating with component auditors. In addition, we welcome application paragraph A72 which reinforces the need for professional scepticism with respect to related parties.

The links to the ISQMs are appropriate, particularly the paragraphs relating to ethics and independence and resourcing (A39 and A40). However, stronger links could be considered between ISQMs and engagement acceptance, in particular where access restrictions are imposed.

## 6. Public Sector Organizations

### AGA

Overall, ED-600 is significantly linked to other ISAs. The linkages are extensive and pervasive. Given the pervasiveness of the linkages, the standard no longer stands alone. If the IAASB continues with the principles set in ED-600, it may be more efficient and effective to remove ED-600 and add individual sections to ISA 200, ISA 315, ISA 330, etc. on “Auditing Group Financial Statements.” Such an approach would make the standards more understandable and easier for the IAASB to make amendments, if necessary.

### AGO

Please see our introductory comments regarding the responsibilities of the component auditor. Also, there is a need for additional guidance on the calculation of component materiality, as detailed in our response to Question 10.

## 7. Member Bodies and Other Professional Organizations

### CAQ

Overall, we support the focus on sufficient and appropriate involvement of the group engagement team in planning and performing the group audit. We also support the Board’s recognition in the proposed standard of the important role that the component auditor continues to play in group audits and the acknowledgement that the group engagement partner is permitted to assign certain procedures, tasks or actions to other appropriately skilled or suitably experienced engagement team members. However, we are concerned that it may not be possible for respondents to the IAASB’s request for comment to fully assess the proposed requirements in ED-600 without proposed ISA 220 (Revised), Quality Control for an Audit of Financial Statements being finalized. As noted in our July 2019 response to the IAASB’s quality management exposure drafts, given the potential impact that the principles in proposed ISA 220 have on those that govern a group audit, we recommend that the Board align the requirements in proposed ISA 220 and ED-600 where appropriate to achieve its intended objectives. As it relates to proposed ISA 220, we are concerned that the practical implications of the proposed revised responsibilities of the engagement partner when applied to group audits conducted in accordance with ED-600 have not been sufficiently evaluated. Given the timing of when the Board expects to finalize proposed ISA 220, we believe amendments to a finalized ISA 220, or other transition guidance, is needed to address the interaction between ISA 220 and ED-600 prior to these standards becoming effective.

### CPAA

(a) CPA Australia agrees that ED-600 has appropriate linkages to other ISAs and the proposed ISQMs, with the exception of some additional references suggested below. We are especially supportive of the footnotes provided throughout ED-600 with exact paragraph references. We suggest referencing ISA 250 in paragraphs 44(b) and A111 in relation to non-compliance with laws and regulations.

(b) We believe that ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs (e.g. ISA 315 and ISA 330), including proposed ISA 220 (Revised), although we recommend that the application material in ISA 220 (revised) paragraph A1 is also covered in ISA 600 as explained further in answer to question 4. We are not aware of any other special considerations for a group audit which should be addressed in ED-600.

Paragraph 9: Paragraph 9 provides useful definitions of a range of terms. However, the interaction of certain terms could be aided by a definition of engagement team, as well as a diagrammatic representation. While we notice that the term 'group engagement team' is well-defined in paragraph 9 (j), paragraph 9 (c) mentions engagement team, a term that is not defined in this paragraph. Whilst proposed ISA 220 defines engagement team, it does not include group engagement team or component auditor. The Explanatory Memorandum notes "When ED-600 refers to the engagement team, it includes the group engagement team and all component auditors. Paragraphs 9(c) and 9(j) of ED-600 define component auditor and the group engagement team, respectively". We suggest that this clarification could be provided in paragraph 9 by including a definition of engagement team which is more expansive than ISA 220 or alternatively that ISA 220's definition include these terms. In the IAASB Roundtable webinar on 13 August 2020, a diagram was presented by IAASB staff that visualised the relationships between component auditors, the group engagement team and the engagement team. This diagram helped address the question of "what is the difference between the engagement team and the group engagement team". We recommend including this diagram (in amended form) in ED-600.

## ECA

Yes, except for ISA 402, ISA 500 and classification of services rendered by component auditors. See corresponding comments pertaining to the highlighted ISAs. In addition, we believe it may be beneficial to include reference to ISA 701.

In addition, the Group debated about possible linkage to the ISA 800, ISA 805? Or ISRS 4400? (See General Comments section, Q1)

Yes, there are. We would like to raise issues about appropriate linkages to ISA 402 and ISA 500, regarding evidence received from Management's experts, and the issue about classification of services rendered by component auditors (see above).

## EFAA

ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs.

However, as explained below, the inclusion of component auditors in the engagement team per ISA 220 poses practical difficulties in group audits especially when component auditors are from outside the GET's firm or network and the GET decides to proceed with the group audit engagement without the involvement of a component auditor.

## FAR

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

## IBRACON

Yes. However, there are some key areas of ISA 315 (Revised) that need more linkage, particularly:

The extent to which a group auditor needs to develop an understanding of the entity and its environment at a component level

Significant classes of transactions, account balances and disclosures at the group level and the work performed at the component level

How material account balances and disclosures in the group financial statements that are not significant may be addressed in group audits in accordance with ISA 330.18

## ICAEW

We are concerned about the linkages with ISA 220 (Revised) in relation to how it defines 'engagement team' and the impact this has for group audits. While the 'group engagement team' as defined in ED-600 excludes component auditors, the definition of 'engagement team' in ISA 220 includes them as part of the engagement team and this has important consequences for the conduct of group audits where component auditors are involved in the group audit.

Our outreach suggests that there will be significant practical challenges for group engagement partners seeking to comply with their responsibilities as set out in ISA 220 in relation to ethical requirements, engagement resources and direction, supervision and review, particularly where component auditors are involved and where the group engagement partner cannot assign aspects of those responsibilities to others. This is a significant issue for very large group audits and has potential implications for the use of component auditors on group audits, particularly the use of component auditors outside an audit firm's network and might also lead, as a result, to inefficiencies in the market place. We therefore urge the IAASB to re-visit their conclusions in this area to address these concerns and consider how specific group audit challenges related to ISA 220 might be addressed, either within ED-600 or through additional guidance.

## IPA

Linkages to Quality Standards – stronger links need to be made to the results of quality processes on the nature and extent oversight and review of component auditor workpapers included in both the revised ISA 600 and ISA 220 (Revised) Quality Management for an Audit of Financial Statements. Furthermore, ISA 600 and the ISQM 2 Engagement Quality Reviews should provide more guidance on the considerations governing the extent of the Engagement Quality Reviewer procedures in relation to review of component auditor work;

There is scope for improvement in relation to the linkages to other standards:

ISQM 1 & ISA 220 – when considering the work of component auditors (including their selection and the degree of oversight and review of component auditor's workpapers) there should be an explicit guidance on the impact of quality control process outcomes (e.g. internal and network quality control reviews) and regulatory reviews when determining the nature and extent of the review of component auditor's conducted procedures

ISQM 2 – there is insufficient guidance on the factors to be considered by the EQR to assist in determining the extent and nature of the review of component auditor's workpapers and, in what circumstances, are reviews of component auditor's reporting or the group engagement team's review of component auditor's reports/working papers sufficient

ISA 300 – should include a reference to determining the scope of the group (i.e. what entities including structured entities, joint arrangements and associates are to be included). In addition, the proposed ISA

600 should include that group engagement team should consider providing, as part of the component auditor instruction package, the overall audit plan required to be produced by ISA 300, and

ISRE 2400 – there are very few linkages in ISRE 2400 that provide specific consideration of the use of component auditors in a review engagement. ISRE 2400 needs specific guidance on the conduct of group review engagements, particularly in relation to the extent to which component auditors are required in a review, and when it is appropriate for the group engagement team to undertake review procedures on an audit component which would have been undertaken by component auditors in an audit engagement.

### KICPA

In relation with the application of the revised ISA 220, the definition of engagement team's terms is revised, thereby including component auditors in case of group audits, which makes ED-600 include the group engagement team and all of the component auditors when referring to the engagement team. However, law and regulation at a certain jurisdictional level prohibit component auditors from being included in the group engagement team, which serves as a stumbling block to adopting the revised ISA 600 in some jurisdictions.

Considering the challenge, we suggest the Board provide clarity and specification as to what needs to be considered in applying ED-600 in countries putting such law and regulation in place, if the revised ISA 600 considers the scenario.

### NRF

Yes, in our view ED-600 does have appropriate linkages to other ISAs and also to the proposed ISQMs.

However, we believe the inclusion of component auditors in the definition of engagement team under ISA 220 (Revised) and the requirements in ISA 600 regarding the GET's responsibilities for direction, supervision and review might create practical challenges (perceived lack of efficiency, more detailed work and increased costs) which, in turn, might lead to less involvement of component auditors in group audits. This will be particularly challenging in situations where the component auditors are from outside the firm of the GET or not within the same network. Such a development might especially have negative consequences for SMPs.

### SAICA

ED-600 is a special considerations standard and not a stand-alone standard, therefore, should expand on how to apply the principles of the ISAs to the various group structures that are most likely to be encountered in practice, taking into consideration the various stages of the audit lifecycle.

ED-600 makes particular reference to linkages with the following ISAs:

Proposed International Standard on Quality Management 1 (ISQM 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Related Services Engagements;

ISA 210, Agreeing the Terms of Audit Engagements;

Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements;

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

ISA 330, The Auditor's Responses to Assessed Risks.

SAICA is in support of the linkages to the standards made above. However, further linkages can be made to the following standards:

Proposed International Standard on Quality Management 2 (ISQM 2), Engagement Quality Reviews. (Refer to the response to question 1(b) below, paragraphs 10 and 11.)

ISA 230, Audit Documentation (refer to the response to question 1(b) below, paragraphs 12 and 13.)

ISA 510, Initial Audit Engagements – Opening Balances (refer to the response to question 1(b) below, paragraph 14.)

ISA 320, Materiality in Planning and Performing an Audit (refer to the response to question 10 below.)

ISA 550, Related Parties (refer to the response to question 12 below.)

## **SMPAG**

Broadly, we believe ED-600 does have the appropriate linkages to other ISAs and also with the proposed ISQMs. As noted below, the inclusion of component auditors in the engagement team under proposed ISA 220 (Revised) remains problematical in a group audit situation, especially when the component auditors are from outside the firm of the GET or not within the same network and the GET decides to proceed with the group audit engagement without involvement of a component auditor.

## **8. Academics**

### **HUNTER**

We believe ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs. However, we believe the following linkages would be appropriate:

Link ISA 500: Audit Evidence to paragraphs 42 and 49:

42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall, in accordance with ISA 500 (para. A26-A30), evaluate whether: (Ref: Para. A103–A104)

(a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;

(b) Performance materiality used for that audit is appropriate for the purposes of the group audit; And

(c) Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 20–22. (Ref: Para. A105)

49. In applying ISA 330 and ISA 500 (para. A1-A25), the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115)

Link ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements to paragraph A111:

A111. In applying ISA 250 (Para. 13-18), The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor. The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not

included in the scope of the group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit).

Link ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements to paragraph 54. Paragraph 54 references paragraph A120 which provides a linkage to the ISA but we believe adding a linkage to paragraph 54 would be useful for quick reference:

54. If In applying ISA 240 (Para. 40), if fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 44 (f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)

Link ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements to paragraph A80:

A80. The auditor In applying ISA 240 (Para. 25), the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

Link ISA 705: Modifications to the Opinion in the Independent Auditor's Report to paragraph A118:

A118. When In applying ISA 705, when the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.

## 9. Individuals and Others

### VERA

Yes, but there is no reference to ISA 701 and in may appear reasonable to amend the text by such a reference.

See above.

## Q01(a) – Disagree

### 4. National Auditing Standard Setters

#### IDW

As we note in our response to Questions 7 and 8 below, the current draft will lead group engagement teams to increasingly seek to perform a top-down risk assessment and design and perform further audit procedures at group financial statement level, rather than having component auditors perform risk assessments and design and perform further audit procedures at component level for the group audit. We believe that group engagement teams will not be capable of identifying and assessing the risks of material misstatement and designing and performing further audit procedures at group level in an effective manner because these matters will need to be done at component level by component auditors given the level of

granularity in ISA 315 (Revised 2019) and ISA 540 (Revised) with respect to such issues as the identification of risks of material misstatement that are reasonably possible, the application of inherent risk factors, the use of the concept of a spectrum of inherent risk, the impact of the new definition of significant risk, and the more granular risk assessment and risk responses to accounting estimates (including the explicit consideration of methods, assumptions and data), as well as the more granular responses to risks that result from the more granular assessment of risks of material misstatement in ISA 315 (Revised).

This implies that the linkages in the draft between the draft and ISA 315 (Revised) and ISA 540 (Revised) do not reflect the real impact of those standards, which would make a top-down approach by the group engagement team, including the communication between the group engagement teams and component auditors, increasingly complex and therefore impracticable.

#### **KSW**

No, we do not believe that ED-600 has appropriate linkages to other ISAs (especially ISA 540 revised and ISA 315 revised). It depends on how the audit profession will implement the new requirements of ISA 540 revised and ISA 315 revised. The requirements of ED 600 should build on the fundamental requirements of those standards and should focus on the special considerations related to group audits.

The risk assessment process will significantly change as a result of implementing ISA 315 revised and ISA 540 revised. We believe that ED-600 does not yet take notice of such changes and contemplate in a sufficient way the practical implications in the context of a group audit.

### **7. Member Bodies and Other Professional Organizations**

#### **WPK**

No, see section 6 and 9 of our comment letter. We believe that ED-600 does not take account of the more granular risk assessment considerations of ISA 315 (Rev. 2019) and ISA 540 (Rev.).

### **Q1(a) – No Comment**

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

##### **CRUF**

No Comment

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

##### **ICAI**

No Comment

### **7. Member Bodies and Other Professional Organizations**

#### **ISCA**

No Comment

#### **SRO AAS**

No Comment

**8. Academics**

**AFAANZ**

No comment

**GRAHAM**

No Comment

**LI**

No Comment

**9. Individuals and Others**

**PITT**

No Comment