

Supplement A.2 to Agenda Item 2

ED-600 Question 1(b) – Does ED-600 sufficiently address the special considerations of a group audit in other ISAs including ISA 220

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(b) – Agree

3. Regulators and Audit Oversight Authorities

CSA

Overall, we support the proposals

NASBA

NASBA believes the ED-600 sufficiently addresses 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) and is not aware of any other special considerations for a group audit which should be addressed in ISA 600.

4. National Auditing Standard Setters

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 sufficiently address the special considerations in a group audit with respect to applying the requirements and application materials in other relevant ISAs. The interaction with ISA 220 (Revised) is important with regard to the responsibilities of the group engagement partner and group engagement team. It is important that this subject is adequately addressed in the ISA 600 (Revised) Application Material and Implementation Guidance.

CR

We believe ED-600 sufficiently addresses 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). At this time, we do not note any other special considerations for a group audit that you believe have not been addressed in 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

AGSA

The ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs and no other special considerations for a group audit where identified.

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

(b) 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. There are no special considerations for a group audit that have not been addressed

7. Member Bodies and Other Professional Organizations

BICA

The ED-600 sufficiently addresses 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).

CalCPA

Yes.

ICAS

We believe that ED-600 does sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including the proposed ISA 220 (Revised). We are not aware of other special considerations for a group audit that have not been addressed in ED-600.

IIA

Yes.

IMCP

No, we believe that ED-600 has substantially addressed group audit considerations.

Yes, ED-600 addresses special considerations in a group audit with respect to requirements and applications in ISA's, including ISA 220 (Revised)

TFAC

Yes

8. Academics

HUNTER

We agree 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.

Q1(b) – Agree with comments

1. Monitoring Group

BCBS

The Committee acknowledges that audits of group financial statements are often complex and appreciates the IAASB's continued efforts to provide requirements and guidance that will enhance overall audit quality in audits of group financial statements. The Committee supports the text noting that ISAs apply to an audit of group financial statements and that ED-600 seeks to refer to, expand on and highlight how other relevant ISAs are to be applied in an audit of group financial statements. We would, however, prefer the first sentence of paragraph 1 in ED-600 to be more explicit (or for it be explained in the application material) that the auditor should apply the requirements and application material of all relevant ISAs when undertaking an audit of group financial statements and that this standard (ISA 600) does not repeat the requirements and application material in those ISAs.

The Committee believes that ED-600 largely addresses the special considerations in an audit of group financial statements. The following are areas in ED-600 where the Committee has recommendations:

Relevant ethical requirements (paragraph 20)

The Committee believes that the standard could be strengthened by inserting a new paragraph after 20(c), requiring the group engagement partner to obtain confirmation from the component auditors that they will promptly inform the group engagement team should they become aware of any breach of ethical requirements.

Differences in opinion (ISA 220 paragraph 37 - Draft from IAASB March 2020 meeting)

We believe group audits are particularly susceptible to differences of opinion, given their potentially complex nature and the involvement of component auditors. This applies also in the context of group audits of internationally active banks. ISA 220 paragraph 37 deals with how differences in opinion should be resolved. We believe that ISA 600 should include application material to clarify how to resolve differences in opinion

when the component auditor is not from the same network firm as the group engagement team, since that paragraph is written assuming a single audit firm. We recommend that such guidance should include that the group engagement partner should communicate the relevant policies and procedures for dealing with and resolving differences between the component auditor and the group engagement team.

ISA 620 Using the work of an auditor's expert

Auditors often use specialists who are auditors' experts to assist the auditor in obtaining sufficient appropriate audit evidence. For certain sectors, including banking, extensive use of auditors' experts may be needed. The Committee believes that ED-600 should expand on the requirements of ISA 620 regarding the group engagement team's responsibility in determining whether to use an expert, as well as the nature, timing and extent of the expert's work for the group and the components in the group. In particular, the Committee seeks clarity as to the group auditor's responsibility in respect of the component auditors' use of experts. For example, does the IAASB intend paragraph 23 to preclude component auditors from independently determining that they should be using experts, i.e. without the agreement or involvement of the group engagement team? If the component auditor can make use of experts independently, we believe ISA 600 should state that the group engagement team should be made aware and provide guidance to the component auditor on how to assess the experts' competence, capabilities and objectivity so that the group auditor is able to properly take overall responsibility for the work of the component auditors.

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

The Committee believes that considerations of laws and regulations are crucial in a group audit, as entities or business units in a group might operate in different jurisdictions and industries which give rise to different local laws and regulations that could materially affect the group as a whole. Specifically, banks' activities are very highly regulated, subject to authorisations and ongoing supervision and it is fundamental that the group engagement team has a good understanding of laws and regulations. As such, we suggest that the application material in paragraph A56 related to relevant regulatory factors be elevated and moved to the main standard paragraph 24(a)(i)(d).

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.

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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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2. Investors and Analysts

CRUF

In particular, we would like to express strong support for the following points.

This Exposure Draft (ED) strengthens the authority and responsibility of the group engagement team to ensure that group audits are conducted properly and consistently. Based on the concept of the revised ISA 315, it emphasises the identification and evaluation of misstatement risk, not only at the assertion level, but also at the group financial statement level as a whole. This is because material misstatements of the group financial statements, could occur at any hierarchy or location of the group, and the nature and complexity of the component's business activities and group's organisational structure could result in a diversity of material misstatements. It emphasises the responsibility of the group audit team for obtaining an understanding of the group and its environment, including IT and internal controls, and obtaining an understanding of the ability of the component auditors, including IT. On the other hand, it allows a flexible risk-based approach based on the concept of the revised ISA 315.

This ED clearly states that the responsibility of the group engagement team is not reduced, even if there are restrictions on access to key people and information. The group engagement team shall take this into consideration when deciding whether to accept or continue the audit engagement, and to document these restrictions.

On the other hand, examples of how to deal with access restrictions have been increased, and examples of descriptions in auditor's reports are also shown in Appendix 2. This will encourage companies to take action.

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

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 believe that the IAASB should consider addressing the issue of who is ultimately responsible for assembling and archiving a group audit file. This would be in light of the different audit firms and engagement teams that may be involved at the component or group engagement team level, as well as the possibility of restrictions on access to information that is outside the control of the group management.

Therefore, the IAASB should consider providing guidance relating to the assembly of the audit documentation to support the group opinion, specifically with regard to audit evidence that is documented in component files and not included in the group audit file. This relates to how group engagement teams should ensure that the documentation to address risks of material misstatement that support the group financial statements is complete and assembled on a timely basis, in line with the assembly requirements of the group audit file. This guidance should contemplate that it may be the case that two or more different reports are issued in respect of the same subject matter information of an entity; and the time limits for the assembly of final engagement files need to address each report, as if it were for a separate engagement. An example would be when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

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

AICPA

The linkage in ED-600 to other ISAs and to the proposed ISQMs is appropriate. We also 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, including proposed ISA 220 (Revised), Quality Control for an Audit of Financial Statements. However, it is the ASB's understanding that proposed ISA 220 (Revised) may be effective prior to ED-600 and as such there may be a period during which auditors will be performing group audits under extant ISA 600 and an effective ISA 220 (Revised). Because of the interplay between proposed ED-600 and proposed ISA 220 (Revised) and the need for these standards to be aligned, we question the efficacy of having the auditor apply extant ISA 600 in conjunction with ISA 220 (Revised). One example of an issue that might arise in doing so is reconciling the difference in the definition of engagement team included in each of these standards. To address this situation, the IAASB might consider providing nonauthoritative guidance in the form of frequently asked questions and answers to assist auditors during the transition period until such time as ED-600 is finalized and becomes effective.

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

We believe ED-600 appropriately addresses the special considerations for conducting a group audit. However, there are some areas where further clarification is required, which are detailed in our responses to questions 3, 6, 7, 8, 8(a), and 8(b).

CNCC-CSOEC

With regard to 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), we consider that all of these considerations should be located in the ED-600 and not dispersed in the other standards. This is notably the case for the definition of the joint audit that has been removed from ISA 600 to be included in the application material of ISA 220 as conforming and consequential amendments arising from the proposed ISA 600. We believe that such a "sprinkling" is detrimental to the readability and the understanding of the standard.

In addition, we note that application material to ED-600 includes many examples of cases where common network policies, procedures, services can support the group engagement team. We are concerned about the interpretation of such developments. Indeed, it could suggest that the IMSB implicitly discourages the involvement of non-network component auditor in a group audit. We draw the

IMSB's attention to the negative impacts of such an interpretation, i.e. an audit market concentration and practical difficulties to perform group audits, as mentioned here above. We therefore recommend the IMSB to provide additional examples involving non-network component auditors, in order to promote a more balanced view.

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IMSB's attention to the negative impacts of such an interpretation, i.e. an audit market concentration and practical difficulties to perform group audits, as mentioned here above. We therefore recommend the IMSB to provide additional examples involving non-network component auditors, in order to promote a more balanced view.

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

Application of ISA 220

While we acknowledge the concept in proposed ISA 220 that the group 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 proposed ISA 220 when applied to large/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 including fraud risk.

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.

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.

NBA

In paragraph 9(j) the responsibilities of the group engagement team are outlined. In the ED the group engagement team is stated as well as the engagement team (the latter includes the component auditors). We question whether the split is clearly outlined and what the effects might be for the degree of supervision, directing and reviewing component auditors. We understand that this will vary and depend upon the specific situation, but some guidance and/or concrete examples would be useful.

Various subject matters such as fraud, going concern and related parties are outlined in several paragraphs in the ED as these are considered in various phases of the audit. We recommend investigating whether these subject matters can be combined in one paragraph in the Standard. For example, subsequent events are only stated in one paragraph. We also question whether it is logical to describe communication with

group management and those charged with governance of the group at the end of the ED. This is performed throughout the audit.

We recommend changing the wording in paragraph 28b relating to ISA 570. From this paragraph it is unclear to us whether information is received from the component auditor and then communicated back to him.

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. 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

DTT

DTTL has provided various recommendations related to areas of ED-600 that can be enhanced, as well as providing more detailed suggestions within this appendix.

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 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

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 also reiterate the concerns highlighted in relation to the recently approved ISA 220 (Revised) in relation to:

The definition of ‘engagement team’ and the incorporation of component auditors into that definition. We have concerns in respect of the following:

There may be unintended consequences with the ability to use component auditors from firms that are not within the same network;

There may be unintended consequences with how relevant ethical requirements, including independence may be extended to component auditors in group audits; albeit acknowledging that the International Ethics Standards Board for Accountants (IESBA) has a project, Engagement Team – Group Audit Independence, which has the objectives of aligning the definition of engagement team with ISA 220 (Revised) and revising the International Independence Standards and their application in group audit engagements

The legal implications of bringing the component auditor into the definition of engagement team have not been fully considered across the different jurisdictions (that is laws and regulations will likely differ between different jurisdictions and across different countries). 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 would now be brought into that litigation because they are a member of the engagement team.

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 believe that, in many areas, ED-600 sufficiently addresses the special considerations in a group audit with respect to the application of requirements and guidance in other relevant ISAs.

We suggest that ED-600 be more clearly aligned to ISA 315 by following a similar structure and layout, including use of subheadings, to facilitate more specific direction as to how to apply the requirements of ISA 315 (Revised) in the specific context of a group audit.

In connection with this, we note that the revised standard would benefit from further clarity regarding the special considerations for the group engagement team regarding the understanding of IT at the components in a group audit. The requirements, as drafted, appear rather high-level, e.g. paragraph 24(a)(i)c refers to “the extent to which the group’s business model integrates the understanding of IT”, and lack related guidance as to the purpose of this, which appears to result in a disconnect with ISA 315 (Revised) in terms of its application on a group audit. The requirements, as drafted, also seem to be much less detailed than the other requirements that complement ISA 315 (Revised), which may therefore give rise to inconsistent implementation in practice.

We also recommend that it would be helpful for the ED to include similar “bridges” in respect of the special considerations in a group audit, including the involvement of component auditors, when applying the requirements of other standards, in particular, ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements; ISA 250 (Revised), Consideration of Laws and Regulations In An Audit of Financial Statements, and ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures, as these are critical areas of an audit. Additionally, as a result of the shift in responsibility at a more granular level to the group engagement team in the revised standard, it would be helpful to emphasise the important role of component auditors in these areas, since many of the detailed requirements in these ISAs likely would need to be performed at a component level.

ISA 220 (Revised)

We recognise that the changes in ED-600 and to proposed ISA 220 (Revised) together aim to clarify and emphasise/ enhance the role and responsibilities of the (group) engagement partner, in particular, in respect of their responsibility to pro-actively manage and achieve audit quality at the engagement level (complementing ISQM 1 and ISQM 2).

We note that paragraph 21(a) now places significant emphasis on the group engagement partner’s responsibility for determining that component auditors have the appropriate competence and capabilities, including time, to perform the assigned audit procedures, and, at paragraph 20, for ensuring that component auditors are aware of, understand and will comply with ethical requirements that are relevant to the group audit engagement, including independence requirements. The application material refers to factors to consider in making these determinations and recognises the ability to depend on common network policies and procedures in accordance with ISQM1.

We note that later requirements regarding performance of procedures may be assigned by the group engagement partner to other members of the group engagement team, as long as the group engagement partner retains ultimate responsibility (A49). However, such flexibility does not seem to be permitted in respect of the above requirements. We therefore recommend that the IAASB consider allowing assignment of aspects of the above requirements to other group engagement team members (including the component engagement partner, if applicable) on the same basis, whilst the group engagement partner retains overall responsibility, to arrive at a more appropriate balance of responsibilities in this area.

In connection with this, we suggest that the IAASB provide guidance as to how the group engagement partner may make such determinations. For example, they may request a component auditor to perform an initial evaluation of the capabilities and competencies, including time, of the component engagement team members (including specialists/ experts that are involved in work performed at the component) which could

also include confirmation that he/she believes the level of competence and capabilities of the component engagement team is appropriate.

We also highlight that paragraph 19 continues to require the group engagement team to request the component auditor to confirm that they will “cooperate” with the group engagement team. We do not consider this to be a robust or sufficiently clear requirement when now considered in light of the significant shift in responsibility towards the group engagement partner. We are concerned that a requirement of “cooperation” in the revised standard may detract from actual or perceived responsibility on the part of the component auditor, which the ED and the EM, nevertheless, acknowledge is an important role. (Please refer to our response to Question 8 for further information).

We suggest, therefore, that the application material at paragraph A35, which indicates that the group engagement team may consider requesting more explicit confirmation from the component auditor that the component auditor will “conduct its work as directed by the group engagement team”, be elevated and included as part of the a requirement at paragraph 19. We also recommend that it be extended to request that component auditors formally acknowledge that they understand the importance of their role as part of the group engagement team; that they will comply with the requirements of the other ISAs, as relevant; that they understand the use that the group engagement team intends to make of their work, and that they understand their responsibility to communicate matters relevant to the group engagement team’s conclusion, set out in paragraph 44. (Please refer to our response to Question 8).

Such communication could also address the component auditor applying their professional judgement in considering whether the risks identified by the group engagement team and any further audit procedures they are requested to perform to respond to those risks are appropriate and complete, to the best of their knowledge, knowing the use that the group engagement team intends to make of their work. We do not believe that such enhancements would in any way detract from the responsibilities of the group engagement team and group engagement partner, but rather would help to clarify and strengthen the important role of the component auditor in the group audit as a whole, and therefore support audit quality.

In respect of the group engagement partner taking responsibility for the work of component auditors, paragraph A50 notes that when component auditors are from another network, firm’s policies and procedures may differ, including regarding actions to take in relation to the nature, timing and extent of direction and supervision of team members. Proposed ISA 220 (Revised) provides examples to clarify/ provide guidance as to the actions that a group engagement partner may take, however, we recommend that additional material, specific to a group audit, be included in proposed ISA 600 (Revised) to focus on the special considerations to be made in a group audit scenario.

Communication with Those Charged With Governance

Paragraph 56 sets out matters that a group engagement team is required to communicate to those charged with governance of the group, in addition to those required by ISA 260 (Revised), Communication with Those Charged With Governance. We question whether the matter set out at point b) would be relevant to those charged with governance of the group, as we consider that concerns regarding the work of a component auditor would be a matter that a group engagement team would address, for example, by performing the work themselves, or by being more closely involved, if they had concerns about the quality of that work. The requirement itself notes that these matters are already “addressed” and therefore we assume do not impact the group audit opinion itself. We suggest, therefore, that the IAASB clarify the intended purpose of such communication or consider deletion of this point.

MAZ

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

MAZUSA

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,¹³ 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.

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 concept of component audits, in particular component audits performed by a component auditor that does not belong to the same network as the group auditor. This is exacerbated by the application material which includes examples describing how common policies and procedures can support the group engagement partner, but which do not include examples involving non-network component auditors.

NEXIA

We believe 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). At this time, we do not note any other special considerations for a group audit that you believe have not been addressed in ED-600.

United Kingdom 2

United Kingdom 1

SOUTH AFRICA

SINGAPORE

Recommendation: more detail / linkage to be provided for requirement as per ISQM 1 par 37(f) in respect of assembly of documentation. This is specifically for where documentation for consolidated amounts are retained in engagement files of components.

(b) ISA 600 does not specifically address or provide guidance on cross border audit arrangement where the main operations and accounting records of the Group and Group audit is carried out in another jurisdiction. In such scenario, it is common for another auditor to perform the group audit and issue audit clearance to

the auditors of the holding entity for the latter to place reliance on the work of the former and issue an audit report for the group to meet the local statutory/regulatory requirements.

It will be useful for ED-600 to address the roles and responsibilities of the auditors for the performing and signing offices.

b) ED-600 does address the special considerations in a group audit. Networks of audit firms are only briefly covered in the standard in respect of specific matters but more guidance on the impact of belonging to a network and how this feeds into the risk assessment and the reliance on component auditors would be helpful.

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) 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

PKF

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.

Key recommendation 4: We recommend the IAASB further clarify the application of the new principles established under ISA 220 (Revised), particularly when applied to varying group engagement structures.

With respect to our principle 3 on assigning accountability for different aspects of audit quality to those who are best placed to influence those aspects, we remain concerned about the practical operability of ISA 220 (Revised) when applied to large/complex group audit engagements.

In redrafting ISA 600 to emphasise the top-down, risk-based approach and the 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 many cases are best placed to make – may have inadvertently been diminished too far. We are concerned that this could have unintended consequences for the professional scepticism and professional judgement brought to bear in the work performed at components. We do not believe that can be overcome by increased supervision and review by the group engagement team alone.

Effectively managing audit quality requires contribution by both group engagement teams and component auditors in relation to the work they do. An acknowledgement that there are others in the group audit who play a role in managing the quality of work performed in aspects of the group audit is needed, without diminishing the overall responsibility 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.

We set out practical questions and illustrate implementation challenges in our response to question 1 in the appendix, as well as recommendations on how they could be addressed in the standard.

We also believe that significant uncertainty remains as to the practical implications of the change in ISA 220 (Revised) to include component auditors within the definition of engagement team, in particular when component auditors are not from within the same network as the group engagement team (increasingly the case due to the requirements of mandatory firm rotation in some jurisdictions). We comment further in our response to question 1 in the appendix.

Further, 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 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.

We appreciate that the group engagement partner's responsibilities under the new ISA 220 have been strengthened. However, in a group context, those responsibilities must be operable and practicable. We are concerned that by diminishing component auditor responsibility, the standard places excessive sole responsibility on the group engagement partner. Clarity on how the ISA 220 principles apply practically under varying group engagement structures is needed.

RSM

Yes, 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. We particularly welcome the alignment to proposed ISA 220 (Revised) and ISA 315 (Revised).

We welcome the clarification that, consistent with the definition in proposed ISA 220 (Revised), the component auditor is specifically included in the engagement team. In addition, we are supportive of the emphasis on the responsibilities of the group engagement partner in ED-600 which reflect the requirements in proposed ISA 220 (Revised).

ED-600 is based on the proposed ISA 220 (Revised) and as such, we expect that a further comparison will be completed once ISA 220 is finalised to ensure that the expectations of the group engagement partner are consistent between the two standards.

The alignment with ISA 315 (Revised) increases the focus on the group engagement team's responsibility for the identification and assessment of the risk of material misstatement in the group financial statements. In this regard we welcome the proposed risk based approach, which we believe will enhance the use of professional scepticism by requiring group audit engagement teams to exercise increased judgment in scoping the approach to a group audit.

However, we suggest that the linkage to ISA 315 (Revised) would be further emphasised by the addition of an extra application paragraph referencing to the spectrum of inherent risk when assessing components.

6. Public Sector Organizations

AGA

ED-600 does not provide sufficient guidance on “Using Audit Evidence from an Audit Performed for Another Purpose” (ED-600.42). This situation is pervasive in the public sector where group auditors rely on independent component auditor's reports. In many situations within the public sector the component auditor is selected by an independent governing board or component management and not the group management or those charged with governance of the group financial statements. In Canada, a common example is school jurisdictions. The current ISA 600 meets the needs of these situations. ED-600 requirements are less practical. For example, two competing firms may be involved as a group and component auditor. The component auditor will most likely have hesitation to allow the group auditor unimpeded access to their audit file (ED-600.A34). Their methodology is part of their intellectual property and sharing this information with the group auditor when an independent auditor's report is issued on the financial statements may not be necessary. When an audit is completed in accordance with the ISA's, then this should be sufficient for a group auditor to place reliance on the component auditor's report.

Furthermore, the requirements in ED-600 of the group audit team to be involved in the work of the component auditor will not be practical in large (many component) group audit situations. Using the prior example of school jurisdictions, which in Canada are the jurisdiction of each individual province. It is not feasible for the provincial group audit team to be involved in the planning, execution and reporting of each individual school jurisdiction. ED-600 appears to have removed the concepts of significant and non-significant component. This concept aided group audit teams to focus on components based on risk. ED-600 has not maintained this guidance and has introduced increased requirements for involvement with component auditors and introduced group audit aggregation risk, making compliance with ED-600 strenuous.

In addition, ED-600 is not clear on what the audit team's requirements are when there is more than one level of component. What happens when a component has multiple components consolidated into it before it is consolidated into the governing entity? This situation is common in sectors such as education. ED-600.42 is also written in the past tense and not the present, why? In its current form, ED-600 is also not clear if statutory auditors are component auditors. This is due to the fact that ED-600.42 is in the past tense.

Another special consideration needed in ED-600 is guidance on the scope of ISA 600 regarding pension plans and the defined benefit pension liability that a sponsoring or participating entity may include in its financial statements, including related disclosures. Proposed paragraph ED-600.11 is not clear if the pension liability would be considered "consolidated" or not. If the pension liability (or asset) is not considered "consolidated," then ISA 600 does not apply, and the auditor would need to do all the audit work regarding the plan liability, which involves auditing plan assets, actuarial liability, etc. Often pension plans have their own audit, but as noted above ED-600.42 is unclear. As proposed, if the plan liability is not considered "consolidated," then the "group" auditor could not use ISA 600 for auditing the pension liability and would need to re-audit the plan. This would not be in the public interest. The situation is exasperated with the removal of ISA 600.02 of the existing standard (see comments under question 12 regarding the current 600.02).

AGC

Yes, appropriate linkages have been established with the fundamental ISAs in important areas such as ethics, acceptance and continuance, involvement of the group engagement partner, resources, materiality, assessing and responding to risk of material misstatement (ROMM), exercise of professional skepticism, communication and documentation.

We believe there are also other special considerations that have not been addressed in ED-600.

ISA 220 (Revised) paragraph 32 addresses the engagement partner responsibilities related to consultation. It could be useful to have specific guidance and linkages when consultations are required and handled by the component auditor.

ISA 700 paragraph 39 (c) requires further description of the auditor's responsibilities in the independent auditor's report (IAR) when ISA 600 is applied. A linkage from ISA 600 to ISA 700 would reduce the risk that an engagement team reaching the conclusion that ISA 600 applies fails to appropriately describe their responsibilities in the IAR.

Materiality, see question 10 for further details.

AGM

Yes, but for the above-mentioned reasons, we believe that the scope of application of ED-600 should include co-audits instead of the ISA-220 which will be revised only in two years, this will cause a lag of standards.

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

AE

b. In line with recently adopted ISA 220, ED-600 states that component auditors are members of the engagement team performing the group audit. This will lead to practical, and in some cases legal and regulatory, challenges related to the group engagement partner's responsibilities for direction, supervision, and review. This will be relevant particularly when component auditors are not in the same firm, or network. Whilst we do not disagree with the Board's underlying rationale driving this approach, the aforementioned practical problems could lead to both foreseeable and, as yet unidentified, application issues. We therefore recommend considering whether there is a better alternative way to avoid unintended consequences that we believe this 'group engagement team' approach brings.

Application material to ED-600 includes many examples of cases where common network policies, procedures and services can support the group engagement partner. This could be perceived as a bias towards group audits being performed by a single network. We do not believe that the Board intended this and including additional examples involving non-network component auditors would help portray a more balanced view.

CAANZ-ACCA

Engagement team definition

The revised definition of engagement team as per proposed ISA 220 (Revised) now includes component auditors. In addition, as per the proposed ISA 220 (Revised) the engagement partner shall take responsibility for other members of the engagement team for example, ensuring that they are made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. We have concerns regarding the practicality of this in the case of group audits, in particular, when component auditors are outside the group auditor's network firm.

This makes the use of component auditors who are outside the network firm more complex. SMPs have raised concerns that this will lead larger firms to use in-network firms to perform group audit work regardless of the existence of a local non-network firms performing local audit work. Practitioners in larger firms agreed that, as written, ED-600 makes it easier for them to use in-network firms for group audit work. Local statutory audit firms, given their responsibility to also report on ISA 250 (Revised), Consideration of Laws and Regulations, may be better positioned with their statutory knowledge to identify issues than a local audit firm of a large network that has a sole responsibility to report to the group auditors only for matters affecting the group financial statements. Therefore, there is a risk to audit quality if local statutory audit firms are excluded from component engagements. This could also lead to additional administrative burden for the audited entity having to deal with two different firms for component and statutory work.

We appreciate that the revised ED-600 is designed to ensure the group engagement team has increased involvement and oversight of the group engagement. However, it is important to find the balance between this objective and the need to ensure audit quality is maintained by requiring the involvement of local auditors where their knowledge of the component means they should be involved in risk assessments and other procedures.

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of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. We have concerns regarding the practicality of this in the case of group audits, in particular, when component auditors are outside the group auditor's network firm.

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CPAA

(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.

CPAI

We have already raised the matter of the role of component auditors. We have not identified any further areas for special consideration.

ECA

Same as in (a)

FAR

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

IBRACON

Considering that the quality management standards (ISA 220 (Revised), ISQM 1 and ISQM 2) are still in process of final approval, we recognize that there are some points that need further alignment to be considered by the IAASB in the next revision. Regarding the new definition of engagement team in ISA 220 (Revised), we believe that meeting the requirements related to the determination of appropriate competence, capabilities and time of the component auditors, and the direction, supervision and review of the component auditors' work will be hard for group engagement teams in practice, particularly for component auditors in different countries or networks firm.

ICAEW

ISA 220 (REVISED): DEFINITION OF ENGAGEMENT TEAM

We are concerned about the linkages with ISA 220, specifically with how ISA 220 defines ‘engagement team’ and the implications 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 component auditors as part of the engagement team. Our outreach suggests that this will have practical consequences for the conduct of group audits. The concerns relate to the group engagement partner’s responsibilities in relation to ethical requirements, engagement resources and direction, supervision and review, and how they might practically be achieved in circumstances where component auditors are involved in the group audit, particularly large audits.

Respondents to our enquiries are concerned that these challenges may affect the extent of component auditor involvement on group audits, and in particular, the use of component auditors from outside an audit firm’s network which may lead, as a result, to inefficiencies in the market place. We urge the IAASB to re-visit their assessment and conclusions in this area and consider how specific group audit challenges related to ISA 220 might be addressed, either within ED-600 or through additional guidance.

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.

ICPAS

In response to 1. (b), we question how a group auditor gains comfort with a component auditor of a foreign company that conducts in a foreign language (Application Material - A40). We suggest application guidance as to the approach to dealing with this (such as using an intermediary to interpret), related supervision requirements, or if the client wants to use a local firm that speaks a different language than the group auditor (e.g. instances where a statutory audit is needed) (Appendix 1, paragraph 2). We also believe more clarity around aggregating trivial misstatements and the impact on component materiality could be added to ED (Application Material - A77).

INCP

Answer: Overall, it does sufficiently address the special considerations in a group audit in line with the requirements of all the relevant ISAs; we suggest that, as a support material for the auditor, more examples are provided on the linkage of ISA 402, Audit Considerations Relating to an Entity Using a Service Organization, with a Group Audit

MICPA

We believe audit quality is best served when different aspects of the audit are assigned to those who are best placed to affect them. Whilst we acknowledge that the final accountability for the group audit must rest with the group engagement partner and team as indicated in ISA 220, however the role and responsibilities assigned to the group engagement team should be practical particularly for large and complex group audit.

The guidance included in this ISA 600 (Revised) somewhat dilutes the contribution of the component auditors who are best placed and most familiar with the operations of the component entities. Accordingly, any guidance or application materials that reinforces the 2-way communication and effective collaboration between the group engagement team and the component auditors, whilst maintaining the balance between the role and responsibilities of the group engagement team and the component auditors, should be reinforced and emphasised.

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.

NYSSCPA

The approach and organization of the ED is appropriate to fulfill the objective of providing helpful and understandable guidance to attain high quality group audits.

The introductory section of the ED, with its links to the timeline development of the revisions, is helpful for understanding why the revisions were needed and how the staff and the Board responded. The significant matters presented in Section 2 are helpful for understanding the detail in the standard application paragraphs, how and why those matters were evaluated, and the specific proposed "significant" changes. This section is integral to the ED since several changes are subtle but are important to understand.

We believe the background information should mention the issuance of the staff practice alert, "Responsibilities of the Engagement Partner in Circumstances Where the Engagement Partner is Not Located Where the Majority of the Work is Performed." This material is covered somewhat in the ED but not in the same way or at the same level of detail.

Tangential to the question of whether the ED incorporates other relevant ISAs, is our disappointment with the post-implementation review of the clarified auditing standards. This is principally because we believe the Board should have identified Audit Sampling (ISA 350) as a foundational standard currently in need of substantive revision because we believe it is conceptually flawed in several respects. (See our detailed comments about ISA 350 under Question 12.) This standard is significant to basic auditing and is an underpinning for materiality concepts.

SAICA

SAICA is of the view that additional guidance should be included in the ED-600 in respect of the role of the Engagement Quality Reviewer (EQR) in a group context and where there are component auditors involved. The focus of the guidance should not only be on the alignment of the terminology between the two sets of standards as the IAASB has done in paragraph A2 of ED-600 but on providing further guidance on the role and responsibility of the EQR in group audits.

In various group audits, situations arise where, similarly to the group engagement partner, there is a group EQR. The group EQR has to place reliance on the individual EQRs at a component level (the component EQRs). Neither the exposure draft nor ISQM 2 provide guidance regarding the group EQR responsibilities and procedures to be performed to place reliance on component EQRs. ED-600 should give further guidance on the scope of work performed by the group EQR and this should not go beyond the scope of work performed by the group engagement partner.

It is imperative that there is clarity on the extent of documentation that should be included in the group engagement file with respect to work performed at component level to avoid different practices being adopted by the firms as this could lead to recurring inspection findings. In South Africa, a substantial portion of the audit inspections findings relate to the lack of sufficient documentation being included in audit files. Failure to provide clear guidance on the documentation requirements could lead to a situation where these findings are exacerbated for group audits.

In light of the above, SAICA is in support of further guidance being provided, in particular for:

The responsibilities of component auditors for maintaining audit documentation and how this evidence should be incorporated in the group engagement file in order to support the group opinion. Paragraph A124 of ED-600 needs to be enhanced as it is currently not clear who has the ultimate responsibility for maintaining audit documentation for work performed at a component level. SAICA is of the view that the group engagement team's evaluation of significant judgements made by the component auditor that have an impact on the group audit opinion should be included in the group engagement file. Such enhanced documentation requirements would also play a significant role in demonstrating the involvement of the group engagement partner in the work performed by component auditors.

Situations where statutory audits have been performed by other auditors on components and how the group auditor should assess and document the considerations made to rely on the work performed by the other auditor. For example, the group engagement team may not be in a position to evaluate whether the component auditors have fulfilled the ethical requirements that are relevant to the group audit engagement, including those related to independence. In addition to this, another consideration relates to the competence of the component auditor. There needs to be emphasis that the requirements of ISA 230 are applicable where the group engagement team relies on the work performed by the component auditor in these instances to ensure that considerations regarding the work of the other auditor are sufficiently and appropriately documented in the group engagement file.

Cases where some of the components in a group structure relate to equity investments that the group does not exercise control over. Such components may have component auditors from different auditing firms and the group engagement team may not necessarily have access to information and people. This scenario, including 13(b) above, could result in lack of sufficient appropriate evidence to support the group engagement partner's opinion on the financial statements.

The introduction of MAFR in South Africa will result in situations where new auditors have to be appointed for public interest entities (PIEs). Given the additional procedures that need to be performed in the case of new group engagements, ED-600 should include a linkage to ISA 510, Initial Audit Engagements – Opening Balances, reminding the group auditor of the need to comply with this standard prior to accepting the engagement, where appropriate. In most instances, group audit engagements relate to PIEs and it is important that the group engagement team determine whether they will be able to obtain sufficient appropriate audit evidence by obtaining access to the previous group auditors where appropriate. This will have an impact on the decision to accept the engagement. The ideal location for the additional guidance to ISA 510 is in paragraph A25 of ED-600.

SMPAG

As the Board will be aware from our response to the ISA 220 (Revised) ED, we believe that including component auditors within the engagement team poses potential difficulties for the GET. This may be detrimental to SMPs, especially if they are the component auditors within the group. The reasons why GET might not choose to use component auditors could include:

Using component auditors - especially those from a different network (i.e., with different audit firm methodologies and quality management systems) - may demand more detailed work from, or result in practical obstacles for, the GET in terms of its direction, supervision and review responsibilities. Thus, a desire to circumvent such issues or just to control efficiency (and minimize costs) might fuel a reduction in external involvement as an immediate reaction. This might constitute an incentive for the GET to either perform work centrally or to seek to deal with members of the same office, firm, or network;

A desire (also by the clients) to avoid complexities resulting from requirements pertaining to audit firm rotation in different jurisdictions, which may vary - making auditor selection across a group difficult to manage (i.e., it may thus be easier to involve only the firm of the GET across the group based on the applicable external rotation rules); and

Component audits may be subjected to different deadlines for audit completion. Where the group audit deadlines are ahead of these for components' audits (desire to avoid possible delays etc.), meeting more stringent group reporting deadlines could be achieved more easily, if the GET chooses not to rely on work performed as part of a statutory audit at the component level. Instead of requesting the audit work to be "speeded up" in order to meet group reporting package deadlines, the GET could elect to perform the work itself; or request another team from its firm or network to perform selected procedures etc. The statutory audit for the component would then be completed subsequently and with no impact on the group audit – potentially calling into question the need for the audit at the component level.

Use of Group Engagement Team and Engagement Team Definition

The use of "group engagement team" or GET and "engagement team" to mean two different constructs is likely to lead to considerable confusion. The opening sentence of para. 15 provides a good example, using both in one sentence, where grammatically it would not be essential to repeat the adjective "group". We believe that GET definition could be replaced by a clearer term e.g., "lead team" or similar, to clearly differentiated the function of this subset of the engagement team.

8. Academics

AFAANZ

Extant research points toward a number of important group audit special considerations that have not been adequately captured in the proposed standard.

Organisation Theory (e.g., Puranam and Raveendran 2012) points towards reciprocal (mutual) predictability of action as an important factor in minimising coordination difficulties among agents who may be evaluated on the basis of a combined output (in a group audit setting, the group engagement partner is responsible for the conclusions drawn on the basis of the work completed by others such as component auditors). Research in auditing highlights the importance of a team / shared identity working towards a common goal in facilitating reciprocal predictability and minimising coordination and communication issues (Downey and Bedard 2019; Downey and Westermann 2020). Audit offices put effort into developing a common identity and a commitment to office-wide quality that facilitates predictable behaviour and an environment within which direction, supervision, and review are most effective.

Component auditors, coming from different offices, do not always subscribe to this team identity, thereby detracting from reciprocal predictability, exacerbating coordination concerns, and reducing the effectiveness of component auditor's work (Downey and Bedard 2019; Downey and Westermann 2020). This is relevant, not only for group audits involving component auditors, but for all group audits. Fostering a team identity is important for all distributed teams, even teams from the same office (Downey et al. 2020). We recommend that paragraph 4 be expanded so as to set the tone in facilitating, through the efforts of the entire group engagement team, a team identity with a common goal. The Explanatory Memorandum notes that when component auditors are involved, they are an integral part of the engagement team. The proposed standard, however, does not effectively reflect this sentiment. The group engagement partner, and those to whom responsibility is assigned, play a critical role in fostering a synergistic team identity. For example, Nelson et al. (2006) highlight the importance of team-oriented leadership in encouraging effective communication within audit teams. We further suggest that the application material associated with paragraph 12 be expanded to recognise the importance of leadership in emphasising and supporting a team identity working towards a common goal.

While we agree with the assignment of ultimate responsibility to the group engagement partner, we feel that the proposed standard presents too much of an authoritative tone that likely exacerbates an already insufficient sense of accountability and responsibility among component auditors (Downey and Westermann 2020). We feel that the proposed standard does not assign sufficient responsibility to the group engagement partner and their local office engagement team for facilitating and working within an environment in which communication and coordination challenges are minimised. Engagement resources, and group audit quality, are not only a function of the competence and capabilities of component auditors (paragraphs A41-A44 detail considerations in this regard), but also the competence and capabilities of the group engagement partner (and those to whom responsibilities are assigned) who will be directing, supervising and reviewing the work of component auditors. Downey and Westermann (2020) suggests that communication and coordination challenges in a group audit are accentuated by an ethnocentric approach where component auditors are expected to yield to the culture of the group auditor. Research suggests that group audit quality is likely improved when the group engagement partner, and others who will be directing, supervising and reviewing the work of component auditors, take an ethno-relativist perspective, putting themselves in the position of the component auditor and, in doing so, better understand the cause of and solution to coordination challenges. With this in mind, we recommend that paragraph 21 be expanded to require the group engagement partner to determine that the members of the group engagement team who will be

directing, supervising and reviewing the work of component auditors have the appropriate competence and capabilities to work collaboratively and effectively with the component auditors. Application and explanatory material in this regard can also be included to highlight particular competencies unique to group audits such as group audit experience and country-specific experience, both of which research has shown to be associated with higher audit quality (Gunn and Michas 2018).

While we recommend that paragraph 21 is expanded to include all members of the group engagement team, and not just component auditors, we do not wish to detract from the importance of competent and capable component auditors in that research (Burke et al. 2020) highlights that competent component auditors can mitigate other quality threatening characteristics of involving component auditors (e.g., culture and language difficulties). However, we note research highlighting that auditors are often overconfident in their colleagues' knowledge (Tan and Jamal 2001; Han et al. 2011). Research undertaken with a view to understanding and improving auditor assessments of their colleagues' competence (Harding and Trotman 2009) highlights the importance of knowing the average competence and capabilities of auditors within 'natural' categories such as hierarchical level in making well-calibrated assessments of their colleagues' competence. Since research suggests that auditor competence and capabilities may not be consistent across national boundaries (Downey and Westermann 2020), we recommend that an additional bullet point be included under dot point 4 in paragraph A42 to include a consideration of whether the group engagement team and component auditor share common recruitment and promotion policies.

With regard to the consideration of network quality control requirements, research points towards the care that needs to be

exercised when relying on a network firm's quality controls. Carson et al. (2019) suggest that audit quality concerns are associated with the use of both network and unaffiliated component auditors, and Downey and Westermann (2020) highlight that quality management may not be consistently applied across global networks. While these concerns are likely to be most pronounced across cultures (Bik and Hooghiemstra 2018), research highlights that inconsistent application of network firm quality control procedures may still be a problem in circumstances when cultural differences are not as pronounced (Barret et al. 2005) and within nations (Beck et al. 2019). We, therefore, recommend that the points expressed in paragraph A40 not be expressly limited to circumstances when component auditors are not from the same firm as there may be differences in quality management, independent of whether the component auditor is from the same firm or not. Similarly, we recommend that commentary in paragraph A44 on the potential for the group engagement partner to rely on network requirements be qualified with the need to consider how consistently network requirements are likely to be applied.

With regard to engagement performance (i.e., paragraph 23), we concur with the tenet expressed in paragraph A51 that the engagement circumstances (e.g., geographic dispersion of engagement team members) and not only the group entity's circumstances (e.g., assessed risk of material misstatement), should be considered when determining the nature, timing and extent of direction and supervision of component auditors and the review of their work. Paragraph 23, however, refers only to circumstances of the group entity without reference to engagement circumstances. We recommend that paragraph 23 be expanded to include a requirement for the group engagement partner to take into account engagement circumstances. This will direct due attention to paragraph A51.

With reference to the engagement circumstances that may be considered by the group audit partner, research highlights a number of circumstances in addition to those presently noted in paragraph A51 (i.e., the competence and capabilities of component auditors, location of engagement team members). Research identifies the following considerations associated with audit quality that we believe the group audit partner

should also be mindful of; the extent to which component auditors are involved in the group audit (Burke et al. 2020), cultural and language difficulties (Sunderland and Trompeter 2017; Burke et al. 2020; Downey and Westermann 2020; Saiewitz and Wang 2020), component auditor concurrent commitments and priorities (Downey and Westermann 2020) and socio-cultural norms (Downey and Westermann 2020).

Finally, with regard to two-way communication between the group engagement team and the component auditor, and with reference to research highlighting that reciprocal predictability is an important factor in minimising coordination difficulties in a group audit setting (Downey and Bedard 2019), we feel that the emphasis in paragraphs 43 to 45 is inappropriately limited to issues directly impacting the group auditor's conclusions, with insufficient emphasis on promptly communicating coordination challenges that may threaten group audit quality. We recommend that paragraph 44 be expanded (or an additional paragraph added) requiring the engagement team to request the component auditor to also communicate matters relevant to the efficient and effective conduct of the group audit.

9. Individuals and Others

VERA

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

See above.

Q1(b) – Disagree

4. National Auditing Standard Setters

IDW

We refer to our response in (a) above and our general response to Question 8 on the linkage between the draft and ISA 220 (Revised).

KSW

In line with the proposed ISA 220 (Revised), ED-600 states that component auditors are members of the engagement team performing the group audit. This will lead to vast practical challenges related to the group engagement partner's responsibilities for direction, supervision and review. Especially when component auditors are involved, who are not in the same network as the group engagement team, in group audits. The more disaggregated the group to be audited is organized itself, the tougher it will be in practice.

In addition, this approach could lead to regulatory constraints in some jurisdictions around the world.

5. Accounting Firms

BDO

Engagement team definition and implementation of quality management processes

As explained in detail in our response to question 1b) below, we have concerns with including component auditors in the revised definition of engagement team set out in the proposed ISA 220 (Revised). We believe that ED-600 correctly requires group auditors to be satisfied with the independence, competence, time, due care, performance and documentation of component auditors, and that the group auditor should adequately direct, supervise and review the component auditor's work. But we do not believe the group auditor should

be expected to force their quality management processes on component auditors that they have no legal jurisdiction over, which is what would be required if the component auditor is part of the engagement team.

We have concerns that component auditors who perform audit procedures on the group audit engagement are captured under the revised definition of engagement team in proposed ISA 220 (Revised). We believe that there could be a number of practical difficulties and unintended consequences from making component auditors part of the engagement team.

For example, meeting the requirements in proposed ISA 220 (Revised) related to the implementation of quality processes for engagement team members such as performing certain procedures to ensure independence, competence, capabilities and time, and the direction, supervision and review of the component auditors' work, will prove difficult for group engagement teams in practice, particularly for component auditors in a different country or from a different firm. In addition, if the component auditor is part of the engagement team, there is a higher degree of direction, supervision and review expected which the group auditor may not be able to achieve when the component auditor is from a different firm and/or a different country, is operating under a different system of quality management, or is not legally accountable to the group engagement team particularly if legal impediments exist. With respect to documentation of the component auditor's work in the group file, the level of documentation expected with respect to engagement team members' work would be higher than the flexibility offered in ED-600 paragraph A127 for component auditors.

When privacy or other regulations prohibit providing component auditor working papers to the group auditor or to audit regulators in the group auditor's country, the group auditor is put in an impossible situation of needing to meet supervision, review and documentation requirements for engagement team members but being prohibited from doing so by laws and regulations.

We believe that one of the unintended consequences of making component auditors part of the engagement team is that it may lead to increased selection of component auditors from the group auditor's network firm as this reduces the practical impediments related to quality management processes, even when it may not be the most appropriate choice when selecting component auditors.

In addition, given the recent public concerns about concentration of firms in the audit profession, a group audit standard that encourages firms to not involve other firms as their component auditors just exacerbates the concentration problem. This could create market inefficiencies (such as reduced competition among firms) which, from a public interest perspective, could inhibit audit quality in the longer term.

We believe that the group audit standard correctly requires group auditors to be satisfied with the independence, competence, time, due care, performance and documentation of component auditors, and that the group auditor should adequately direct, supervise and review the component auditor's work. But we do not believe the group auditor should be expected to force their quality management processes on component auditors they have no legal jurisdiction over, which is what would be required if the component auditor is part of the engagement team.

In addition, the group audit standard can still require compliance by component auditors with ethical and quality requirements without making the component auditors part of the engagement team. We fully support ethical and quality requirements for component auditors but we would prefer that such requirements for component auditors be included in ISA 600 rather than being enforced through quality management requirements relevant to engagement team members.

If the IAASB does not want to include requirements for component auditors in the group audit standard, another alternative would be to develop a separate standard for component auditors. Such requirements for component auditors would help ensure quality without the unintended consequences arising from making them part of the engagement team.

In addition, to deal with the unintended consequence of auditor concentration, it might be helpful to include wording in revised ISA 600 or specific examples in implementation support materials that demonstrate the involvement of non-network component auditors.

7. Member Bodies and Other Professional Organizations

EFAA

We have some serious concerns.

We fear that the inclusion of component auditors within the engagement team will tend to discourage the use of component auditors, especially SMPs. There are various reasons why the GET might not choose to use component auditors. First, using component auditors, especially those from a different network using different audit methodologies and quality management systems, will likely result in more work and practical issues for the GET. Hence, the GET will be motivated to find ways of performing work centrally or dealing with members of the same office, firm, or network. Second, the GET and the client may wish to avoid any complexities arising from a variation in audit firm rotation requirements across different jurisdictions that make auditor selection across the group difficult to manage. It will be easier to involve only the firm of the GET across the group. Third, component audits may be subject to different audit completion deadlines. Where the group audit deadlines are before those of components' audits, say to mitigate the risk of delays, meeting more stringent group reporting deadlines could be more easily achieved if the GET opts not to rely on work performed as part of a statutory audit at the component level. Rather than requesting the audit work to be accelerated to meet group reporting deadlines the GET may elect to perform the work itself or request another team from its firm or network to do it. The statutory audit for the component would then be completed subsequently with no impact on the group audit. The client might then be tempted to question the need for the audit at the component level and elect not to if such an option is available.

WPK

No, see answer to question 1

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(b) – No Comment

1. Monitoring Group

IAIS

) 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)?

3. Regulators and Audit Oversight Authorities

MAOB

No Comment

4. National Auditing Standard Setters

ICAI

No Comment

7. Member Bodies and Other Professional Organizations

CAQ

No Comment

IPA

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

ISCA

No Comment

KICPA

No Comment

SRO AAS

No Comment

8. Academics

GRAHAM

No Comment

LI

No Comment

9. Individuals and Others

PITT

No Comment