

Summary of Respondents' Comments to Questions 1 and 13 in ED-600

1. This agenda item summarizes respondents' comments related to questions 1¹ and 13 in the Explanatory Memorandum (EM) to ED-600. **Agenda Item 2**, section II, describes the Task Force's views and recommendations in response to these comments.

Section I – Linkage to Other Standards

2. Many respondents to the [Invitation to Comment](#) (ITC) supported clarifying and reinforcing that all ISAs need to be applied in a group audit through establishing stronger linkages to the other ISAs, in particular to ISA 220 (Revised),² ISA 315 (Revised 2019)³ and ISA 330.⁴ To clarify the linkages with other standards and to clarify that all ISAs apply to an audit of group financial statements, ED-600:
 - Clarified that the ISAs apply to an audit of group financial statements, that ED-600 deals with special considerations in an audit of group financial statements and that the requirements and application material in ED-600 refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements.
 - When applicable, included references to the foundational standard in the requirement or application material. In such cases the following construct was used: 'In applying ISA ...'.
3. Question 1 of ED-600 asked respondents for their views on the linkages between ED-600 and other standards:

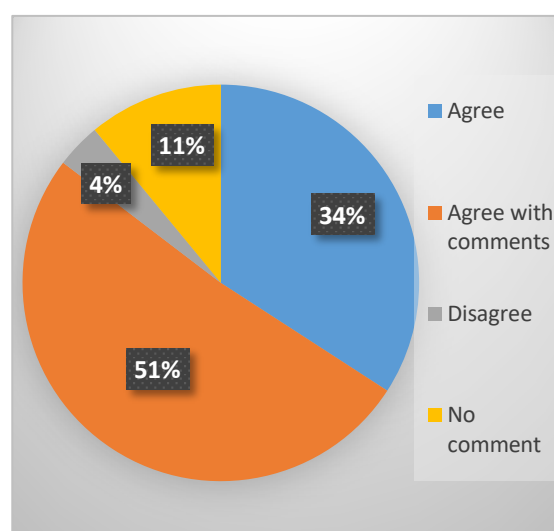
With respect to the linkages to other standards:

- (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?*

What We Heard

General

4. Responses to Question 1(a) were as follows (see the separate NVivo reports for further details):
 - 28 respondents agreed with the proposals, including a Monitoring Group member – 34%;
 - 42 respondents agreed but with



¹ A summary of respondents' comments on the engagement team definition was discussed in the December 2020 Board meeting. See [Agenda Item 4](#), section IV of the December 2020 IAASB meeting

² ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

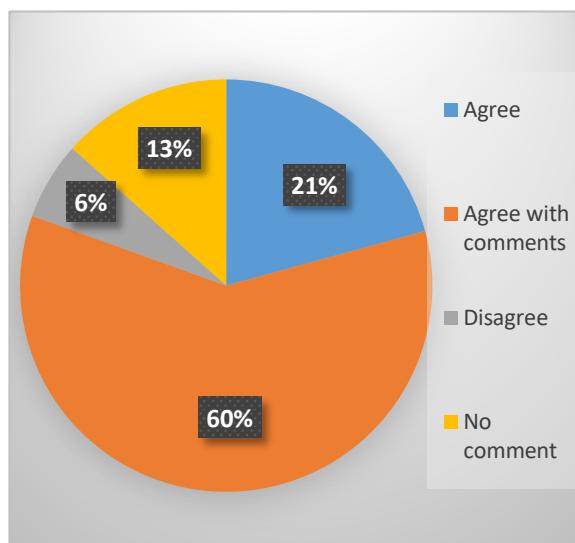
⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

comments or concerns, including three Monitoring Group members – 51%;

- 3 respondents did not agree with the proposals – 4%; and
- 9 respondents did not have a specific response – 11%

5. Responses to Question 1(b) were as follows (see the separate NVivo reports for further details):

- 17 respondents agreed with the proposals – 21%;
- 49 respondents agreed but with comments or concerns, including three Monitoring Group members – 60%;
- 5 respondents did not agree with the proposals – 6%; and
- 11 respondents did not have a specific response, including a Monitoring Group member – 13%.



6. Given that respondents answered question 1(a) and 1(b) together and that respondents' interpretation of the questions differed, the themes for both question 1(a) and 1(b) were summarized together.
7. Respondents that agreed with the proposals generally did not offer detailed reasons for their support, other than noting that:
- The linkages of ED-600 to other standards are appropriate; and
 - ED-600 sufficiently addressed the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

Monitoring Group

8. One Monitoring Group member noted that paragraph 34 of the [Exposure Draft of Proposed ISA 220 \(Revised\)](#) deals with how differences in opinion should be resolved, but that ISA 600 (Revised)⁵ does not seem to address how this would work in a group audit context, especially when a component auditor is not from the same network. This Monitoring Group member suggested to provide greater guidance in this area, for example, through the group engagement partner communicating the relevant policies and procedures for dealing with and resolving differences with the component auditor at an early stage.
9. One Monitoring Group member suggested to include additional guidance to understand the interrelationship between ISA 600 (Revised) and ISQM 1⁶ and ISQM 2⁷ with respect to the responsibilities of the group auditor and reliance on the firm's system of internal controls, for example related to paragraphs A20, A39, A42, A43 and A44 of ED-600.

⁵ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁶ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁷ ISQM 2, *Engagement Quality Reviews*

10. Two Monitoring Group members noted that considering 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. In that regard, they noted that the banking and insurance business is highly regulated and that it is fundamental that the group auditor has a good understanding of relevant laws and regulations. It was suggested to move the application material in paragraph A56 of ED-600 to paragraph 24(a)(i)(d) of ED-600.
11. Two Monitoring Group members highlighted that auditors often use specialists to assist the auditor in obtaining sufficient appropriate audit evidence and that ISA 600 (Revised) should expand on the requirements in ISA 620.⁸ For example, ISA 600 (Revised) could explain the group auditor'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. It was also suggested to clarify the group auditor's responsibility in respect of the component auditors' use of experts.

Other Respondents

12. Respondents that agreed with comments or disagreed had various suggestions on how to enhance the linkages to other standards. Among other matters, respondents noted that:⁹

ISA 220 (Revised) – Operability for Large, Complex Group Audits

- a) There will be significant practical challenges for the group engagement partner to comply with the responsibilities as set out in ISA 220 (Revised) in relation to ethical requirements, engagement resources and direction, supervision, and review. This will particularly be the case when component auditors are involved and when the group engagement partner is not permitted to assign aspects of those responsibilities to others. It was noted that this is an issue for large group audits and may have potential implications for the use of component auditors, particularly the use of component auditors outside an audit firm's network.
- b) The emphasis on the overall role of the group auditor for audit quality in a group audit may have diluted the sense of ownership by component auditors for the judgments and decisions made. As a result, there may be unintended consequences related to professional skepticism and professional judgment.
- c) The direction, supervision, and review requirements in ISA 220 (Revised) need to accommodate the different circumstances in a group audit. Therefore, ISA 600 (Revised) should allow the group engagement partner, when 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.

ISA 220 (Revised) – Other Matters

- d) Some of the concepts in ISA 220 (Revised) should be included in proposed ISA 600 (Revised). For example:
 - o Including the reference to joint audits in proposed ISA 600 (Revised) instead of only dealing with it as part of the conforming and consequential amendments to ISA 220

⁸ ISA 620, *Using the Work of an Auditor's Expert*

⁹ A summary of respondent's comments on the engagement team definition was discussed in the December 2020 Board meeting. See [Agenda Item 4](#), section IV of the December 2020 IAASB meeting

(Revised).

- o Retaining extant ISA 600 paragraph 2 or a similar paragraph in the Introductory section of proposed ISA 600 (Revised) to demonstrate the link to ISA 220 (Revised).

ISQM 1

- e) The application material to ED-600 includes many examples of cases when common network policies, procedures, services can support the group auditor. It was noted that this may discourage the involvement of non-network component auditors in a group audit. Others noted that ISA 600 (Revised) should place additional emphasis on the ability of the group auditor to rely on the firm's policies and procedures as established in ISQM 1 to allocate and assign appropriate roles and responsibilities to individuals.
- f) Paragraph A39 of ED-600 should be enhanced to reinforce the group auditor's and component auditor's responsibility over compliance with the relevant ethical requirements, including those related to independence. It was noted that threats to independence may arise in group audits with multiple components with respect to the allocation of fees and other remuneration arrangements.

ISA 315 (Revised 2019)/ ISA 330

- g) In relation to the risk-based approach, further clarity is needed on how the requirements of ISA 315 (Revised 2019) should be applied in a group audit. Among other matters respondents noted that:
 - o The group auditor may not be capable of identifying and assessing the risks of material misstatement and designing and performing further audit procedures at the group level in an effective manner without involving component auditors.
 - o Guidance on the linkage between significant classes of transactions, account balances and disclosures at the group level and the work performed at the components should be provided.
 - o Additional clarity is needed about the extent to which a group auditor needs to develop an understanding of the group and its environment at a component level, including the understanding of the information systems in a group.
- h) In relation to ISA 330, paragraph 18, ISA 600 (Revised) should include guidance on how material account balances and disclosures in the group financial statements that have not been determined to be significant accounts and disclosures may be addressed in group audits.

Other ISAs

- i) Fraud could be emphasized in the same way as related parties and going concern. It was noted that there may be challenges to address the risks of fraud if component auditors are seen to be only performing certain procedures or tasks.
- j) A link to paragraph 16 of ISA 240¹⁰ could be considered in paragraph A80 of ED-600 to reinforce the application of professional skepticism during the group auditor's discussion on fraud.

¹⁰ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- k) The proposed standard should include a specific link to the consideration of laws and regulations (ISA 250 (Revised))¹¹ in paragraph 44(b) and A111 of ED-600.
13. Respondents supported the new requirements related to the communication of related party relationships or transactions, and events or conditions identified by group management or the group auditor that may cast significant doubt on the group's ability to continue as a going concern (paragraphs 27 and 28 of ED-600).

Section II – Translations and Effective Date (Question 13)

14. Question 13 of ED-600 asked respondents the following

The IAASB is also seeking comments on the matters set out below:

- (a) *Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.*
- (b) *Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.*

What We Heard

Translations

15. Responses to Question 13(a) were as follows (see the separate NVivo reports for further details):
- 11 respondents had comments on the translation of ED-600 – 13%; and
 - 72 respondents had no comments on the translation of ED-600, including all four Monitoring Group members – 87%
16. Respondents who provided comments did not identify any significant translation issues. It was noted that the IAASB should allow sufficient time for the translation and implementation of the final approved standard, especially given the recently approved quality management standards.¹²

Effective Date

17. 59 respondents (71%) provided comments on the effective date but did so in various ways. For example, some respondents supported or otherwise commented on a specific effective date or implementation period, while others commented more broadly on the need to allow for sufficient time to support effective implementation. Of those that mentioned a specific effective date or implementation period, some also commented on linking the effective date of proposed ISA 600 (Revised) with the effective dates of other recently completed standards (e.g., ISA 315 (Revised 2019) or the quality management standards). See the separate NVivo reports for further details.

¹¹ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

¹² The quality management standards consist of ISQM 1, ISQM 2 and ISA 220 (Revised)

Monitoring Group

18. Two Monitoring Group members recommended the earliest possible adoption of the standard, while one Monitoring Group member recommended finalizing the proposed standard as expeditiously as possible and no later than June 2021. That Monitoring Group member noted that a June 2021 approval date would allow the IAASB to align the effective date of ISA 600 (Revised) with the effective dates for the quality management standards, therefore implicitly supporting the proposed 18-month implementation period.
19. One Monitoring Group member encouraged the Board to consider the potential implications for group auditors if ISA 600 (Revised) and ISA 220 (Revised) have different effective dates.

Other Respondents

20. 26 respondents (44% of respondents who answered this question) agreed with the ED-600 proposed effective date of approximately 18 months following the approval of the final revised standard. Additional comments provided by these respondents included the following:
 - a) A June 2021 approval date by the IAASB would align the effective date of ISA 600 (Revised) with the effective dates for the quality management standards (consistent with the view of the Monitoring Group member as noted in paragraph 18). Respondents pointed in particular to the strong interaction between ISA 220 (Revised) and proposed ISA 600 (Revised).
 - b) If aligning the effective dates of proposed ISA 600 (Revised) and the quality management standards is not feasible, the IAASB should issue transitional guidance to bridge any gap between extant ISA 600 and proposed ISA 220 (Revised).
 - c) The release of ED-600 is overdue, and the nature and frequency of scandals involving foreign components causes significant risk to the investing public globally to delay the effective date of this standard any further than necessary to allow for quality implementation by audit firms.
21. 16 respondents (27% of respondents who answered this question) focused on an implementation period but supported a period longer than 18 months (e.g., at least 18 months, 24 months or a minimum of 24 months following approval of the final revised standard). Another six respondents (10% of respondents who answered this question) focused on a specific effective date of financial reporting periods beginning on or after December 15, 2023 (i.e., 2024 calendar year ends). Given the substantive revisions being proposed, the prevailing view of these 22 respondents was that more than 18 months may be needed to allow sufficient implementation time, including time for translation, changes to firm methodologies and training, and planning and communications by other stakeholders (e.g., audit regulators, national standard setters). Other comments provided by these respondents included the following:
 - a) The implementation of proposed ISA 600 (Revised) will be impacted by other recently issued IAASB standards, including ISA 315 (Revised 2019) and the quality management standards. Therefore, a longer implementation period for ISA 600 (Revised) helps to allow for effective implementation of all of these standards. Allowing insufficient time for effective implementation poses risks to audit quality.
 - b) ISA 600 (Revised) is a special considerations standard that addresses many aspects of a group audit and provides guidance for applying other ISAs to a group audit. In that regard, it entails a much more significant implementation effort than an ISA addressing an individual aspect of an audit.

22. Other comments provided by respondents related to the effective date included the following:
- a) Proposed ISA 600 (Revised) should become effective at least one year after the effective date of ISA 315 (Revised 2019) and the quality management standards as the revised group audits standard represents a significant change in approach.
 - b) If the effective date of proposed ISA 600 (Revised) were to be aligned with the effective dates of the quality management standards (i.e., 2023 calendar year ends), there would be insufficient time for implementation (i.e., less than 12 months assuming IAASB approval in December 2021 and PIOB approval of due process in March 2022).
 - c) A December effective date is appropriate due to the annual methodology and training programs in place at many firms.
 - d) The current uncertainties and challenges arising from COVID-19 pandemic should also be considered when setting the effective date.