ED 600 Question 4 – Is the Scope and Applicability of ED-600 Clear?

**Question 4:**

Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).

**Q4 - Agree**

4. National Auditing Standard Setters

JICPA

We believe the scope and applicability of ED-600 is clear. We support the definition of group financial statements.

5. Accounting Firms

BT

Yes and yes. Paragraph 9(k) clearly defines group financial statements and consequently what is to be audited in a group audit.

CG

The scope and applicability of ED-600 is clear. We support the definition of group financial statements including the linkage to a consolidation process.

MNP

Yes, we support the definition of group financial statements, including the linkage to a consolidation process, and believe that the applicability of ED-600 is clear. We support the IAASB’s efforts to clarify the scope and applicability of ED-600.

6. Public Sector Organizations

AGO

Yes, we support this revised definition. Currently, group financial statements are defined as financial statements that “include the financial information of more than one component” (paragraph 9(j)). However, the definition of a component in paragraph 9(a) describes a component as an entity “that should be included in the group financial statements”. The proposal to define group financial statements in the context of a consolidation process adds clarity and allows the definition of group financial statements to stand on its own.

AGSA

The scope and applicability is very well detailed. The definition of group financial statements is also clear and can sufficiently be understood with no difficulties.
GAO
The scope and applicability of ED-600 is clear. We support the definition of group financial statements, including the linkage to a consolidation process.

PAS
Yes, the scope and applicability of ED-600 is clear. We support the definition of group financial statements, including the linkage to a consolidation process.

7. Member Bodies and Other Professional Organizations
BICA
The scope and applicability of the proposed standard is clear. The scope indicates what special considerations are when reference is made to “a group”. This is achieved by making clear distinction through use and definition of “consolidation process”.

Definition of group financial statements is appropriate as the key word is the consolidation process which has been properly described at paragraph 11.

CalCPA
Yes, we understand that the entry point into the group audit standard is where auditor is engaged to audit group financial statements and that group financial statements exist where there is financial information of more than one entity or business unit. Paragraph 2. indicates that a “key” factor is whether financial information is prepared through a consolidation process which includes, by definition in paragraph 11, consolidation, aggregation and by “presentation” in combined financial statements.

CPAI
We consider that the scope and applicability of ED-600 is clear, and we support the definition of group financial statements.

EFAA
We believe the scope and applicability is sufficiently clear and support the definition of group financial statements.

IIA
The scope is clear.

IMCP
Yes, we believe that the scope and applicability of ED-600 is clear.

Yes, we support the definition of group financial statement, including the linkage to a consolidation process.

INCP
Yes, the scope of the standard is clear on the definition of audits of group financial statements, including those circumstances where component auditors are involved. The group’s financial statements include financial information from one or more business units or entities, which is prepared on a consolidated basis, and the
standard provides a broad description of what may be considered as a business unit or entity and clearly points to those cases in which a consolidation process should not be considered (field offices or divisions) and, therefore, ISA 600 would not be applicable.

**NYSSCPA**

We agree with the scope, applicability, and definition proposed in the ED, consequently the ED provides more flexibility in its application. The audit strategy applied to these concepts is more generic and flexible and may differ from the entities’ legal organization or tax structure. When applied in the audit process, the identification and response to risks by auditors are enhanced. The characterization of, and linkage to, the consolidation process as a key element in the proposed definition is useful for differentiation.

**WPK**

Yes. We believe the scope of ED-600 is clear and we support the definition of group financial statements, including the linkage to a consolidation process.

8. **Academics**

**HUNTER**

We support the ED-600 definition of group financial statements, including the linkage to a consolidation process.

9. **Individuals and Others**

**VERA**

Yes

Q4 - Agree with Comments

1. **Monitoring Group**

**BCBS**

We believe the scope of application of ED-600 is clear, and we agree with paragraph 24 of the explanatory memorandum (EM) that ED-600 should apply to all audits of group financial statements regardless of whether component auditors are involved.

We note the IAASB does not propose defining entities or business units. Given the range of organisational forms we agree it could be a challenge to provide a clear and comprehensive definition, in particular as it is not the intent of the standard to completely align with the definition of a group under any particular accounting framework (e.g., ED-600 includes item (b) in paragraph 11; aggregated financial statements are not ‘group’ financial statements under many accounting frameworks).

Paragraph 2 of the extant ISA 600 has been deleted for the reasons set out in paragraph 28 of the EM. We think the retention of this paragraph may still be useful to deal with other scenarios that are not obviously covered by other ISAs, and where many of the principles and requirements of this standard would be relevant consideration, for example the audit of:

a subsidiary entity within a group, in particular where the group has a high degree of centralisation. The subsidiary auditor should understand the impact of other group entities on the subsidiary audit, procedures
may be allocated to the group engagement team, and there should be effective two-way communication. In practice, we have seen references to group engagement teams as component auditors in this scenario.

an entity with a number of overseas branches having the ability to account centrally for those branches. Under ED-600 paragraph A17 this scenario would be outside the scope of the standard, yet auditors local to the branches may be needed. With increased IT processing ability, the production of centralised information without the need for an intermediate step to produce a branch return may increase, and so this scenario may become more prevalent.

Additional suggestions or matters of clarity:

ED-600 paragraph A6: in relation to a subgroup, we think it would be useful to clarify that the centralised or shared services may be provided by an entity that is part of that subgroup’s wider group but is not part of the subgroup (eg by a parent of the subgroup), and that in this case that shared service centre may also be a component.

ED-600 paragraph 2: we do not think it is necessary to refer to a consolidation process as “a key factor”. The definition of group financial statements in paragraph 9(k) indicates that a consolidation process is the only factor.

ED-600 paragraph 11: we are not sure that ‘includes’ is required within the first line. References to the consolidation process ‘is’ … (a) …. (b)… and (c)…

IAIS

The IAIS believes the scope is relatively clear. However, it may be useful to retain paragraph 2 in the current ISA 600 (which has been deleted in ED-600). This paragraph indicates that the principles in the standard may be relevant to other scenarios outside the scope of the standard (eg when the audit involves other auditors in the audit of financial statements that are not group financial statements).

For example, in the case of a subsidiary entity within a group (especially where the group has a high degree of centralisation) then the principles from ISA 600 may still be relevant and useful to apply. In this case, from the perspective of the subsidiary auditor, the group audit team has some characteristics of a component auditor. As with a group audit, a two-way communication between the subsidiary and group auditor would be important.

IOSCO

Application to Combined Financial Statements

Paragraph 11 states that “Reference in this ISA to “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of:

(a) Consolidation, proportionate consolidation, or the equity methods of accounting;
(b) The aggregation of the financial information of branches or divisions; or
(c) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control. (emphasis added).

While the inclusion of combined financial statements of entities or business units that have no parent but are under common control is appropriate, we believe an applicable financial reporting framework could permit the
use of combined financial statements in other circumstances, e.g., when there is common management but not common control. We encourage the Board to consider expanding the application of the consolidated process to all types of combined financial statements that are permitted under the applicable financial reporting framework.

3. Regulators and Audit Oversight Authorities

CEAOB

The scope of ED 600 has been clarified in terms of the definition of group audit, group financial statements and the reference to the consolidation process. However, we believe that the definition of “consolidation process” in paragraph 11 (b) should clearly exclude the aggregation of the financial information of branches or divisions when this aggregation results in preparation of financial statements of a single legal entity, which would not be subject to a “group” audit, but to a “single entity” audit.

IAASA

The scope of ED 600 has been clarified in terms of the definition of group audit, group financial statements and the reference to the consolidation process. However, we believe that the definition of “consolidation process” in paragraph 11(b) should clearly exclude the aggregation of the financial information of branches or divisions when this aggregation results in preparation of financial statements of a single legal entity, which would not be subject to a “group” audit, but to a “single entity” audit.

IRBA

We believe that the scope and applicability of ED-600 are clear.

Regarding the definition of group financial statements in paragraph 9(k), we recommend that the IAASB provides clarity on the applicability of ISA 600 to financial statements that do not undergo a consolidation process and the interpretation thereof under different financial reporting frameworks, such as financial statements that may contain equity accounted associates and joint ventures, among others, with no subsidiaries being part of such a group. The clarity can be achieved by cross-referencing paragraph 9(k) to paragraph 11 of ED-600, where the consolidation process, as envisioned under ED-600, is explained in detail.

Further, the IAASB should consider expanding on what is meant by “prepared financial information” in paragraph A17 of ED-600, as it is currently not clear whether it refers to the process, a trial balance or a set of financial statements; and how it links to the definition of a component as per ED-600.

NASBA

NASBA believes the current focus on a consolidation process in defining group financial statements can be confusing. There could be situations where components share accounts and general ledgers, but where the activity and documentation reside in different locations. Paragraph A-17 would seem to exclude certain activities from the scope of ISA 600. IAASB should consider whether this needs additional study and if revised implementation guidance is necessary.

UKFRC

Overall, we support the scope and applicability of ED-600 and believe it will address a number of concerns that have been raised by stakeholders, including concerns about when ISA 600 does or does not apply. We support the approach described in the explanatory memorandum in relation to the application of ISA 600 to
shared service centres, entities with branches and divisions and non-controlled entities (including equity-accounted investees and investments carried at cost). We also support the conclusions of the IAASB that:

ED-600 should apply when the auditor is engaged to perform an audit of group financial statements, regardless of whether CAs are involved;

The ‘consolidation process’ is fundamental to the definition of group financial statements; and

The definition of a component should focus on the ‘auditor’s view’, of the entities and business units comprising the group, for purposes of planning and performing the group audit (discussed further in our response to Question 6).

Feedback from stakeholders was mixed, however, as to whether the scope and applicability is sufficiently clear in ED-600. For example, where the accounting policy choices that an entity makes in accordance with the applicable financial reporting framework do not directly accord with the definition of group financial statements or consolidation process scope and application may still be confused. To address this, we recommend that:

The IAASB include examples, that illustrate the application of the requirements of an applicable financial reporting framework in the context of the definitions of group financial statements and the consolidation process.

ED-600.A17 is included in the introductory material of the standard that explains its scope. In particular, that part of A17 that explains that in circumstances when the accounting for branches or divisions is performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation, that the financial statements do not represent group financial statements and ED-600 does not apply.

4. National Auditing Standard Setters

AICPA

The definition of group financial statements in paragraph 9(k) which states that these are “financial statements that include the financial information of more than one entity or business unit through a consolidation process” is appropriate. However, adding a cross-reference in paragraph 9(k) to paragraph 11 so that the definition is linked more closely with detail about what constitutes a consolidation process would better provide necessary clarity.

AUASB

Scope and Applicability of ED ISA 600 (including Scalability)

The AUASB generally supports the scope and applicability of ED ISA 600, including the definition of group financial statements and the linkage to a consolidation process. However, ED ISA 600 as it is currently written captures in scope some very simple group structures (for example, a single entity with branches for which no component auditors are used) for which the requirements in the proposed standard may be considered excessive. While the AUASB understands that the underlying ISAs need to be addressed and ED ISA 600 relates to special considerations for group audits only, the expected level of documentation to effectively demonstrate that the special considerations of ED ISA 600 may not be applicable for very simple group structures and could be considered excessive. The AUASB recommends that, for single entity structures with different locations (or ‘branches’), the introductory material to ED ISA 600 is updated to allow greater scope for the auditor to exercise professional judgement in determining whether ED ISA 600 applies. The IAASB
could determine the factors to be considered in exercising professional judgement including considerations such as inherent risk factors, commonality of controls and centralisation of activities.

Additionally, as the title of ED ISA 600 refers to ‘group financial statements’ there is a risk that practitioners do not realise that they are working with a group engagement under ED ISA 600 when auditing a single entity that is not a group in the traditional sense (e.g. subject to a consolidation process). To aid in the clarity of the applicability of ED ISA 600, the AUASB recommends that the introductory section of the proposed standard should specifically call out that ED ISA 600 includes such single entities in scope in certain circumstances (i.e. multiple locations or branches) and what requirements an auditor needs to address in these scenarios.

Finally, ED ISA 600 currently does not include any reference to how the requirements of the proposed standard apply to public sector entities. The AUASB considers the IAASB should include additional application material relevant to group audit arrangements that may exist in the public sector, such as the audit of whole of government financial statements.

The AUASB generally supports the scope and applicability of ED ISA 600, including the definition of group financial statements and the linkage to a consolidation process. However, the AUASB recommends that the scope and application of the standard be clarified and that the introductory paragraphs be strengthened in this regard. The AUASB recommends the following enhancements to the introductory paragraphs:

The definition of “group financial statements” could be further enhanced by directly incorporating the “consolidation process” definition which is a key element to the entry point into the standard.

ED ISA 600 scopes in some very simple group structures for example a single entity with branches for which no component auditors are used. While the AUASB understands that the underlying ISAs are applicable and ED ISA 600 is special considerations only, there is expected to be an extensive amount of documentation to effectively demonstrate that the special considerations of ED ISA 600 are largely not applicable. The AUASB recommends that for single entity structures, the auditor exercises professional judgement in determining whether ED ISA 600 applies. The AUASB could determine the factors to be considered in exercising professional judgement including considerations such as inherent risk factors, commonality of controls and centralisation of activities.

The title of ED ISA 600 refers to ‘group financial statements’, with there being a common understanding of the use of the term ‘group’ and ‘consolidation process’, there is a risk that practitioners do not realise that they are working with a group engagement under ISA 600. To aid in the clarity of the applicability of ED ISA 600, the AUASB recommends that the introductory section of the proposed standard should specifically call out that ED ISA 600 includes such single entities in certain circumstances.

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.

CAASB

While we support the use of the consolidation process to determine whether group financial statements are prepared, we received many questions from stakeholders concerning the scope of ED-600. Due to the complexity of financial reporting systems and the variability in how financial data can be aggregated, analyzed
and presented, it can be difficult to determine whether the financial statements have been prepared through a consolidation process.

Stakeholders raised questions regarding whether various audit scenarios, such as a group audit that includes equity investments or an audit of a fund of funds, would be within the scope of ED-600. Implementation guidance to assist practitioners in understanding the change in the scope of the standard will be essential to providing this clarity. The implementation guidance could outline how different audit scenarios are in-scope or out-of-scope of ED-600. This implementation guidance could include how ED-600 would be operationalized for a group audit that includes an equity investment, including when an auditor’s report has been issued for statutory, regulatory or other reasons on the financial information of the equity investment.

In addition, we believe it is important for the IAASB to emphasize in the basis for conclusions (BFC) how the treatment of multi-location audits has changed from the extant standard. Clarification of whether multi-location audits should be within the scope of ED-600 was raised as a key issue to be addressed by this project. The BFC should outline the IAASB’s conclusion on this issue.

**HKICPA**

We believe ED-600 is clear on its scope and applicability to an audit of consolidated financial statements or financial statements applying the equity method of accounting. However, we consider further clarification is needed on ED-600’s applicability to the following audit engagements:

- A single entity with branches and/or divisions being “consolidated” to compile its financial statements;
- A special purpose audit on the combined results of identified entities or business units, regardless whether they are subject to common control;
- Audit of financial statements of which its preparation does not involve a “consolidation process”, but part of the audit procedures are performed by the auditor of network firms/other audit firms; and
- Specified procedures performed by auditors of network firms or other audit firms directly reviewed and concluded by the group auditor.

Paragraph 9(b) of ED-600 defines a “component” as a location, function or activity determined by the group engagement team for the purposes of planning and performing audit procedures in a group audit. Paragraph 11 of ED-600 considers the “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of consolidation, aggregation of the financial information of branches and divisions, etc. Further, paragraph A17 explains that unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore ED-600 does not apply.

Generally speaking, “consolidation” is a financial reporting concept, for example, under HKFRS/IFRS 10 Consolidated Financial Statements, an entity that is a parent shall present consolidated financial statements when it controls one or more other entities or investees.

In ED-600, the interpretation of “consolidation process” goes beyond those applied in a consolidation, proportionate consolidation or equity method of accounting in the context of HKFRS/IFRS 10 and HKAS/IAS 28 (2011) Investments in Associates. It includes aggregating the financial information of branches or divisions within the same entity, and combined financial statements of financial information of entities or business units that have no parent but are under common control.
As the interpretation of “consolidation process” in ED-600 is broader than the process applied to prepare consolidated financial statements or financial statements using equity method of accounting under the applicable financial reporting requirements (e.g. HKFRS/IFRS 10, HKSA/IAS 28 (2011)), to avoid confusion, we suggest the IAASB to provide illustrative examples, other than the audit of consolidated financial statements or financial statements using the equity method of accounting, that would potentially be caught by ED-600. For example:

A single entity with branches and/or divisions being “consolidated” to compile its financial statements using a simple aggregation and elimination process.

A special purpose audit on the combined results of identified entities or business units, regardless whether they are subject to common control.

As currently drafted in the ED-600, it is unclear whether the applicability of ED-600 is driven by the presence of a “consolidation process” or the involvement of component auditors. For example, whether ED-600 is applicable to a specified procedure (e.g. attendance at physical inventory counting) performed by the auditor of network firms/ other audit firms while the preparation of financial statements under audit do not involve a “consolidation process”.

In addition, it would be helpful if the IAASB could clarify whether ED-600 is applicable as long as other auditors are used, even if specified procedures performed by auditors of network firms or other audit firms are directly reviewed and concluded by the group auditor, i.e. auditors at network firms or other audit firms do not evaluate, conclude and report on the work they performed for the purposes of the group audit.

IDW

We believe that the scope and applicability of the draft is clear because the draft proposes that the standard applies to group financial statements, which in turn are clearly defined as those that include the financial information of more than one entity or business unit by means of a consolidation process. The consolidation process is in turn clearly defined and supported by application material that should, in most circumstances, leave no doubt as to when the financial statements represent group financial statements and therefore when the draft applies. For these reasons we very much support the linkage to the consolidation process.

We do not believe there are any other reasonable alternatives for scoping when ISA 600 applies. This applies particularly to the issue of the aggregation of the financial information of branches or divisions by means of a consolidation process. As the Explanatory Memorandum points out, there is fundamentally no difference between the consolidation process used to consolidate subsidiaries and the process used to aggregate the financial information of branches and divisions, both processes of which involve aggregating the financial information and eliminating inter-entity transactions and balances. Whether ISA 600 applies should not be made dependent upon whether, for example, international groups choose to organize their entities or business units in various jurisdictions in the form of legal subsidiaries, or partnerships or branches or divisions that may or may not be legal entities in some jurisdictions, but for which separate financial information is prepared that then needs to be aggregated. Furthermore, as the application material in the draft explains, if the financial information of branches or divisions does not need to be aggregated because the accounting for these is performed centrally and no separate financial information for the branches or divisions needs to be aggregated, then no consolidation process takes place and ISA 600 would not apply.
KSW

In our opinion the scope and applicability are clear. However, the explanations do not fully reflect them in the requirements of ED-600, leaving room for different interpretations. There are certain scenarios where it is problematic to find out whether ISA 600 applies or not. Letter-box audits and audits of shared service centers are examples. IAASB should provide scenario-based application guidance on this. Otherwise it will trigger local interpretations or potentially interpretations by regulators. Guidance is necessary for engagements that involve more than one auditor that do not meet the definition of an audit of group financial statements.

MIA

The AASB supports the intent of the change in definition of group financial statements, including the linkage to a consolidation process although further clarification on what constitutes the term “financial information” would be helpful.

The current focus on a consolidation process in paragraph 11 in defining group financial statements is unclear in relation to the aggregation of divisions of large entities that are not a parent entity of a group. Paragraph A17 would seem to exclude certain activities from the scope of ISA 600 if there is no separately prepared financial information for these components and if these are performed centrally.

Additional clarity and implementation guidance would be helpful with regards to group audits involving an SSC where activities of branches or divisions are performed centrally which may not have separate financial information, or in the case of various branches and outlets within an entity (e.g., banks and restaurants) and real estate investment trust (REIT).

The AASB would also recommend that further guidance be developed to clarify the role of an SSC to help the GETs in designing and performing audit procedures at an SSC. For example, guidance could be given on consideration of when an SSC may be deemed to be a component and how shared audit evidence obtained from the audit of an SSC is leveraged across audits of components of the group. Similar considerations should be made for business process outsourcing or equivalent where certain processes are outsourced to external parties and not part of a formal SSC.

NBA

One-line consolidation (see Q4 in this letter)

We have concerns about the clarity of the definition of the consolidation process.

We support the definition of group financial statements including the linkage to a consolidation process which is defined broadly. Nevertheless, we have concerns about the clarity of the definition of the consolidation process. For example the equity method does not include a complete consolidation process with eliminations and adjustments. Some practical examples might help to clarify this.

In paragraph A56 is stated that the legal group structure may be different from the operating structure for tax purposes. Group auditors should be careful with this. We recommend explaining this and adding that there should be a rationale for this kind of structures.

NZAuASB

The definition of group financial statements is clear and straightforward to apply where the audited entity must account for its interest in other separately structured entities in accordance with the applicable financial reporting framework. The NZAuASB supports ED-600 to link the definition of group financial statements with
aggregation requirements under the applicable financial reporting framework (including consolidated entities, joint arrangements, and associated entities as well as consolidation of entities under common control).

However, using the consolidation process to scope in group structures other than those mentioned above (e.g. the case of branches or divisions that are not formal separate structures) may be problematic. According to paragraph A17 of ED-600, whether such structures are scoped in or out revolves around how an entity’s financial reporting system organises financial information. Consequently, if an entity uses financial information for several locations, that is aggregated using a separate system or process, that information may be scoped in. However, if the same entity designs its financial information system in such a way that geographical location is first part of the group’s financial reporting system and then disaggregated by group management for operating purposes, there is no consolidation process and the audit may be scoped out of ISA 600. The NZAuASB believes that, in such circumstances, professional judgement is required to carefully consider the engagement circumstances to determine whether a group structure exists and, consequently, what parts of ISA 600 would apply.

The NZAuASB suggests a two-step approach to determine whether group financial statements exist:

For separately structured entities, where the applicable financial reporting framework requires aggregation of each entity’s financial statements into group financial statements via consolidation, proportionate consolidation, or the equity methods of accounting.

For internally structured business units (e.g. branches and divisions), the auditor exercises professional judgement in determining whether ISA 600 applies. In making such determination, the auditor considers the following:

Specific inherent risk factors (paragraph A56 of the ED includes a good list of these risk factors).

Whether there is a need to aggregate the financial information of such units in a way that involves elimination of inter-unit transactions and balances or accounting for different reporting periods.

Specific considerations relating to understanding and evaluating the group’s system of internal controls, including matters such as Commonality of Controls (A59-A63), use of Centralised Activities (A64-A65), and the entity’s IT systems.

The increased aggregation risk applying to materiality determination where there are many components.

Increased concerns for inadequate access to appropriate and sufficient audit evidence, especially when accepting or continuing an engagement

5. Accounting Firms

BDO

We generally support and agree with the scope and applicability of ED-600. We also support the clarification in the definition of group financial statements. However, we feel that the requirements relating to applying the definition of group financial statements and the use of the term ‘consolidation’ are not clear.

ED-600 refers to the consolidation process in the definition of group financial statements and relates the consolidation process with the applicable financial reporting framework (ED-600.11).

The term ‘consolidation’ is also referred to in ED-600.A17 relating to instances where ‘…the accounting for branches or divisions may be performed centrally and there is no separately prepared financial information for the branches or divisions that requires aggregation’.

Supplement B.4 to Agenda Item 4
Page 11 of 30
Therefore, in these circumstances, if the financial information is not ‘subject to the consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore this ISA does not apply’. ED-600.A17 is somewhat confusing in trying to explain when branches or divisions are within the scope of ED-600 and may result in inconsistencies in applying the scoping requirements.

We recommend that ED-600 be amended to include additional guidance to clarify the ‘consolidation process’.

Further, we suggest an alternative to the proposed scope and applicability of ED-600. ED-600 seems to allow for an ‘auditor’s view’ in identifying components and therefore we propose the scope of ED-600 include the situation whereby the group auditor determines that there is more than one component.

We also suggest that the IAASB consider retaining the existing concepts in extant ISA 600.2 regarding situations when an auditor involves other auditors in the audit of financial statements that are not group financial statements. There are currently situations where the concepts in extant ISA 600.2 are applied; for example:

Audits of subsidiary financial statements whereby the processing and accounting of transactions is conducted at a central processing location or a shared service center. The auditor of the subsidiary financial statements relies on the results of procedures performed by the auditor of the shared service center.

Audits of an entity registered in one country that has its operations located in another country. The auditor of the registered entity is required by law to issue the auditor’s report but they do not have legal rights to conduct the audit in the other country (i.e., a mailbox audit). Therefore, the auditor of the registered entity has to rely on the audit work of its operations performed by another auditor.

Using other auditors to attend inventory counts.

If extant ISA 600.2 is not retained in ED-600, we recommend additional guidance be developed to discuss situations described in the above examples.

Scope of proposed ISA 600

We are concerned with the removal of extant ISA 600.2 as it currently allows the concepts in this standard to be applied in situations that are not audits of group financial statements when an auditor involves other auditors. See examples in the response to Question 4. There is currently very limited guidance available when auditors encounter these circumstances and we recommend that this paragraph be retained in the new standard.

CR

While we believe the scope and applicability of ED-600 is clear, to address the misperception that the concept of a group audit only applies when another independent auditor is involved, that the name of the standard be renamed to the following: Special Considerations—Audits of Group Financial Statements (Including When One Auditor Audits the Whole Consolidation).

DTT

As noted in the cover letter, DTTL agrees with the scope, the entry point, and the definition of group financial statements. However, DTTL does note that the linkage between the definition of the group financial statements and the description of what constitutes a “consolidation process” in paragraph 11 of ED-600 is not clear. DTTL therefore believes that including a reference in paragraph 9(k) of ED-600 to paragraph 11 of ED-600 would provide the additional clarity needed.
Further, it would appear that auditors may confuse “consolidation process” as stated in paragraph 11 of ED-600 to only mean group financial statements that are “consolidated.” DTTL recommends that paragraph 11 of ED-600 be amended to focus on the importance of the financial reporting framework, as follows.

Reference in this ISA to “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements. The “consolidation process” as used within this ISA encompasses the following by way of: …

In addition, DTTL believes that the guidance in paragraph A17 of ED-600 causes confusion, as it is not clear what the underlying principles are that are driving the distinction between when the financial information of the branch or division is considered to be aggregated versus when it is not. As drafted, it would appear that the distinction is based on whether or not the financial information is being separately prepared. However, such a distinction may result in an inconsistent determination as to what constitutes a consolidation process for purposes of determining whether group financial statements are prepared. For example, when an off-the-shelf software package is used, parameters may be established to generate separately prepared financial information for each branch or division. Alternatively, the parameters may be established to reflect multiple sub-accounts in which each sub-account is representative of a branch or division, such that no separate financial information is prepared. In both instances, the underlying financial information is the same, yet the outcome differs and ultimately this affects the applicability of ED-600. For this reason, DTTL recommends that paragraph A17 of ED-600 be deleted.

ETY
Yes, the scope and applicability of ED-600 is clear. We support the definition of group financial statements and the linkage to a consolidation process. However we do believe that the IAASB should extend the scope of the standard to “combined financial statements” (Conceptual framework par. 3.12) because in some jurisdictions there are an important population of reporting entities at group level which do not have a parent-subsidiary relationship with the other component entities. In these jurisdictions, it exists a mandatory group audit for these kind of reporting entities.

EYG
We support the approach to the scope and applicability of ED-600. We however foresee that clarifications are needed in the following areas to avoid diversity in practice:

The terms “consolidation process” and “group financial statements” in ED-600, which together comprise the auditor’s point of entry to ED-600, are defined differently from certain financial reporting frameworks (e.g., IFRS 10). ED-600 should state more clearly under the Scope of this ISA section that the definitions of group financial statements and consolidation process are for the purposes of the scope and applicability of this ISA and that it is not intended that these definitions align to their equivalents in the applicable financial reporting framework.

In particular, under the revised scope of ED-600, it appears that an audit of an entity with only associates and/or joint ventures and no subsidiaries would be included in scope of ED-600. However, for such an entity, the equity method of accounting would be applicable under IFRS such that the financial statements would not be “consolidated financial statements”. Nevertheless, it seems intentional by the IAASB that ED-600 would still apply because the equity method of accounting is included in the scope of the “consolidation process” for the purpose of the ISA. We believe this particular difference should be highlighted within ED-600 to drive consistency in application of ED-600.
Paragraph 11 states that “consolidation process” is achieved “by way of (b) The aggregation of the financial information of branches or divisions”. Yet, paragraph A17 seems to place a caveat on this definition such that the aggregation of branches or divisions does not fall under the scope of ED-600 when there is not separately prepared financial information for the branches or divisions. Hence, the IAASB should consider whether the meaning of “aggregation” in paragraph 11 should be clarified to include the caveat. Furthermore, paragraph A17 could more clearly explain that the existence of a shared service center alone does not mean a consolidation process exists (i.e., a shared service center may be used by an entity to assist in its processing of transactions such that the shared service center is therefore part of that single entity’s information system). The guidance to explain consolidation procedures in paragraph A18 seems incomplete and could benefit from further development. Alternatively, we believe this paragraph could be deleted.

**KPMG**

We welcome the amended definitions of “group”, “component”, and also the introduction of the definition of “group financial statements” to provide additional clarity as to when the standard applies. We are supportive of the proposal that this continue to hinge on whether there is a “consolidation process” to prepare the financial information, but with this core concept broadened to refer to different forms of “aggregation” and which also recognises more clearly the requirements of the applicable financial reporting framework in this area.

We believe the revisions provide greater clarity regarding the entry point to the standard and avoid the current “chicken and egg” confusion whereby a group is defined in relation to whether there are components and components in relation to whether they form part of a group.

Please refer also to our response to Question 6 regarding the revised definition of a component and the “auditor view” of this.

We note that the extant standard, at paragraph 2, permits its application by analogy to a situation that is not, technically, a group audit but where there are similarities and it is helpful to do so in the context of using the work of another auditor, which is not addressed in other ISAs. We highlight that this is not retained in the revised standard, although the broader definition of a group may now encompass many of these situations. We suggest, therefore, that the Board consider whether it may be helpful to reintroduce this paragraph, or to include additional material in proposed ISA 220 (Revised) regarding using the work of another auditor, to address such circumstances.

**MGN**

The scope and applicability is generally clear, however we note that it would be helpful to add additional guidance on Letterbox audits, particularly in the light of the fact that these have been highlighted in the past as causes of concern for some regulators. It would also be helpful if there was additional guidance on shared service centres (which do not conform to a one size fits all model) and in particular an articulation of the concept of aggregation process.

IAASB should consider providing additional guidance relating to audits of companies where an entity has no subsidiaries but equity accounts for investments in associates or joint ventures.

We support the definition of group financial statements including the link to consolidation process but see our comments above.
Yes, the scope and applicability of ED-600 is generally clear. More clarity could be given on scenarios such as letterbox audits.

We would encourage IAASB to think about developing a new category of non-authoritative guidance, which might include examples or FAQs, targeted at different types of firm or engagement to support the application of standards and aid scalability.

Yes, scope and applicability is clear in terms of the definition of a group and component. The fact that a consolidation process must be involved also assists in identifying when the standard should apply.

Yes, for the most part, the scope and applicability of ED-600 is clear.

While we believe the scope and applicability of ED-600 is clear, to address the misperception that the concept of a group audit only applies when another independent auditor is involved, that the name of the standard be renamed to the following: Special Considerations—Audits of Group Financial Statements (Including When One Auditor Audits the Whole Consolidation).

We support the definition of group financial statements, including the linkage to a consolidation process for the following reasons:

- The eventual group audit opinion would be based on group financial statements which are, by and large, the outcome of a consolidation process. We also support the clarification in A17 which clarifies that when there’s only branches and divisions, then technically no consolidation is done and hence no group opinion is rendered. Accordingly, ISA 600 will not apply.

- This broader definition allows greater flexibility for the group auditors to determine how the components within the Group should be “formed”, instead of being confined to just looking at “one legal entity, one component’ perspective.

Non-controlled entities, Investment carried at cost

- According to paragraph 14 of ED600 (Revised) Explanatory Memorandum (EM), the scope of ED600 (Revised) includes “non-controlled entities, including equity-accounted investees and investments carried at cost”.

- In ED600(Revised) paragraph 11(a), “consolidation process” refers to recognition and measurement by way of “consolidation, proportionate consolidation, or equity methods of accounting”.

- It appears that there is misalignment on “investments carried at cost” between EM paragraph 14 and ED600 (Revised) paragraph 11(a).
Also, we note that there is no consideration for either:

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

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

PKF

The scope as detailed in paragraphs 1 to 6 of ED-600 is clear and the definition of group financial statements, including the linkage to a consolidation process provides a clear entry point into the standard. However, we note these additional comments for consideration by the taskforce:

Paragraph 1:

Our understanding of ED-600 is that the auditor will apply the entire suite of the ISAs when performing a group audit and the special considerations and requirements of ED-600 are performed in addition to the other relevant ISA requirements. This needs to be explicit in paragraph 1. Regulators and stakeholders noted that one of the concerns with the extant ISA 600 was that, in some cases, the group auditor interpreted the requirements of ISA 600 as a foundational standard and not a supplementary standard and ignored or missed its linkage to other requirements in the full suite of the ISAs.

The last line of this paragraph lists the other relevant standards that are linked to ED-600. Understanding the need to emphasize the linkage and remind the auditor about the foundational requirements that are applicable, but not repeated in this standard, it appears that only the three standards i.e. ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330 are relevant. This is not a complete list. Consider including ISA 320, ISA 450, ISA 550, and ISA 570 as these are particularly mentioned in ED-600. Alternatively, to eliminate the risk of an incomplete list, remove the text that makes references to other relevant standards. This will also support the need for the auditor to focus on the foundational standards and the supplementary standards.

Paragraph 2:

Although the term “consolidation process” is defined in paragraph 11, at the entry point to the standard, consider including the term “aggregation” in the last sentence. Consolidation is a very accounting technical term and often is interpreted as being applicable to consolidated financial statements and not group financial statements as defined in paragraph 9 of ED-600. This is to avoid the risk that engagements which should be subject to the special considerations and requirements of ED-600, are not.

Paragraph 3:

The definition for entities or business units, in this paragraph, should be included in the definitions section in paragraph 9.

Include the following text to the last sentence: “and might differ from the legal structure of the group”. The inclusion of the additional text is to reinforce the risk-based approach and the new definition of a “component”.
PwC

We support the intent of clarifying different engagement circumstances to which the standard is expected to apply. We also support the intent of the change in definition of group financial statements.

In our engagement team outreach, there was uncertainty around the extent of the intended application of the proposed revised definition of “consolidation process” to entity structures that are not typical “groups”. For example, whether the aggregation of multiple divisions within a single legal entity that is not structured as a parent entity and subsidiaries falls within scope. Many larger single entities that are not a group also now operate sophisticated ledgers that have separate financial reporting capabilities for aspects of the business, such as revenue streams, segments, or divisions, which may be seen as giving rise to an “aggregation process”. For example, entities that have multiple discrete business lines with separate management, or retail entities that have financial information disaggregated on a store-by-store basis. Aggregation does take place in preparing the financial statements in both these examples, leading some to believe the standard applies to these audits. Given this ongoing ambiguity, we recommend further clarity is needed in the application material (paragraph A17) as to circumstances not intended to be within the scope of the standard.

We also believe further clarity is needed with respect to shared service centres (SSCs). As businesses increasingly centralise and standardise processes, SSCs are becoming ever more integral to record-keeping and financial reporting – meaning they are also of increasing importance to an auditor’s understanding of the group’s system of internal control. Addressing how SSCs may be viewed in the context of the operations of the group, based on a robust understanding of their role in the financial reporting of the entities or business units of the group, would provide useful guidance for group engagement teams in determining how best to approach the performance of audit procedures at a SSC. For example, whether determined to be a component in its own right or not, the group engagement team may want to engage a “component” auditor to help in understanding the SSC, its processes, systems and controls and to perform testing.

Consideration of how evidence obtained from testing at a SSC fits into the overall scope of further audit procedures to be performed across components of the group is also vital to ensuring a cohesive and effective approach that avoids the risk of insufficient evidence being obtained to address the risks of material misstatement of the group financial statements. Who, within the group, is best placed to manage the quality of the work performed at the SSC and who is best placed to assess the results of those procedures? When a SSC performs specific transactional processing for entities of the group, for example revenue and receivables, the component auditor of the relevant entity may be better placed to evaluate the outcomes of that work relevant to that component, taking into account their knowledge of the component and its operations. The group engagement team, however, still needs to be involved in coordinating this holistic view across the group as a whole and evaluating whether or not sufficient appropriate audit evidence has been obtained to support their report over the group financial statements. See also our response to question 9.

These matters may best be addressed in the section on understanding the group as part of risk assessment procedures, for example, expanding the guidance around paragraphs A64-A65. However, this needs to be linked to the consideration of when a SSC may be deemed to be a component for purposes of the group audit (paragraph A6).

Further guidance would also be useful in explaining when and how ISA 600 may be used when addressing engagement structures that involve more than one auditor but that do not meet the definition of an audit of group financial statements. The IAASB has made clear that such engagements fall within the scope of ISA 220. We understand the rationale given for the relocation of paragraph 2 of extant ISA 600, which states that the standard may provide useful guidance in addressing such engagement circumstances, to ISA 220.
However, we believe this paragraph should also be retained in ISA 600 and perhaps expanded to include, for example, a reference to a new appendix that could provide additional guidance to explain that audit quality is best supported when the individuals best placed to manage aspects of quality are assigned responsibility for those aspects. Such an appendix could also illustrate the “when and how”, emphasising the critical importance of collaboration across the engagement team without diminishing the overall responsibility of the engagement partner for the engagement as a whole.

RSM

Yes, we believe the scope and applicability are clear and support the definition of group financial statements linking to the consolidation process. The application paragraphs A16-A18 provide guidance on the different types of consolidation process. We believe that the use of language in paragraph A17, referring to ‘in these circumstances’, is ambiguous regarding precisely which circumstances are intended to be included, and may lead to confusion in applying paragraph 11.

We also suggest expanding A17, to include multiple legal entities for which there is no separately prepared financial information or financial statements and where all accounting is performed centrally.

We agree with paragraph 3 which recognises that the planning and performing of a group audit may not necessarily follow the same structure and organisation of the group. However, we believe more clarification is required on how to apply the standard when the group auditor designates components differently to the way in which the entity defines its business units or operations. We acknowledge a reference to this in A15 but believe further application or implementation guidance will be helpful. The acknowledgment of different structures that comprise a group appropriately modernises extant ISA 600.

6. Public Sector Organizations

AGA

The scope and applicability of ED-600 is clear, however ED-600.08 states the objectives of the “auditor”. This could be clarified, specifically is this the objective of the “group engagement leader” or “group audit team.” Secondly, ED-600.08(d) states the auditor is required to “evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed. . .” It is not clear how this could be done without review of audit working papers. Application guidance should be provided as to what would be sufficient procedures to “evaluate whether sufficient appropriate audit evidence has been obtained.” If ED-600.23 & .A49-.A52 are applicable, they should be referenced in ED-600.08(d).

AGC

In our view, the scope and applicability of ISA 600 (Revised) could be clearer. The reference to entities or business units in the definition of a group financial statements is broad. In the explanatory memorandum, the IAASB states in paragraph 26 that those terms will be sufficiently understood because similar terms are used in extant ISA 600. The term in the extant ISA 600, business activities, created interpretation issues in our experience. This is a good opportunity to better define what a business unit is and bring more clarity. It is important to do so as ISA 600 (Revised) brings new wording to describe the structures of the group. The definition of a group financial statement introduces branches or divisions in paragraph b) while the definition of a component introduces a location, function or activity (or combinations, functions or activities).

We support the definition of group financial statements including the linkage to a consolidation process. As the definition includes a consolidation process, users may expect all group financial statements to be a
“Consolidated Financial Statements”. Having a consolidation process has defined in ISA 600 (Revised) does not necessarily mean that the financial statements are consolidated as per the applicable accounting framework. We believe it might be of value to emphasise the fact a consolidation process doesn’t necessarily have the same meaning as consolidated financial statements as per the applicable accounting framework.

AGM

We consider that ED-600 is clearer, especially for categorizing what a group audit and a component are. We agree with the definition of group financial statements.

We believe that there will be enforcement difficulties when two accounting firms will be involved in the group audit. Accounting firms respectively have their own methodology that is sometimes different for some aspects. In addition, accounting firms do not generally share the detail of their methodology, which could cause disputes between the group auditor and the components auditor during the mandate. It is to be noted that this problem also occurs during co-audits.

It would be wise to develop application material, guides and implementation tools with examples of good practices.

7. Member Bodies and Other Professional Organizations

AE

The explanations in the explanatory memorandum are clear. However, these are not fully reflected in the requirements of ED-600 leaving room for different interpretations.

There are certain threshold scenarios in which it will be problematic to find out whether ISA 600 applies or not - audits of letter box companies and shared service centres where there is no larger group as such are two examples. The IAASB could provide scenario-based application guidance to make sure the ‘entry point’ of the standard is clear across the board. Otherwise it will have to be prescribed in local jurisdictions, potentially by the interpretations of regulators. Hence, it could lead to fragmentation and inconsistent application of ISA 600.

As noted above, there are a number of corporate structures, legal and/or operational, that have used extant ISA 600 as a basis to develop their audit strategy, although these applications have often not been without any issue.

The identification of significant and non-significant components in the extant ISA 600 has been a fundamental part of group audits for many years and is considered to be effective by many practitioners. The removal of the requirement for full-scope audits of financial information for significant components could have huge implications in European jurisdictions where statutory audit is currently used as a mean to audit significant components. Therefore, we wonder if the IAASB could find a way to retain this by allowing auditors to follow a combined approach in cases where they find this more appropriate in meeting the objectives of the standard. More specifically, this could be achieved by adding a requirement for considering full scope of audit based on the significance of the component and other appropriate criteria.

The question of entry point is a very important issue which is up for interpretation in ED-600 for certain cases. This may lead to inconsistent application of the standard globally. We expand on this point in the specific questions below.
CAANZ-ACCA

We generally support the scope, the applicability and the definition of group financial statements and the linkage to a consolidation process, however, there are concerns regarding the entry point to ED-600 in some circumstances. For example, in public sector audits where the auditor general outsources audit work, or audit engagements where an entity may have to report in two separate jurisdictions and may involve a second auditor in the second jurisdiction. Such circumstances may or may not meet the definition of a group. We therefore suggest further clarity regarding the entry point is included in the application material in the form of scenarios.

Although we recognise that some of these concerns should be addressed by the proposed ISA 220, based on feedback we received, we are of the view that ED-600 should also be clear on this as they directly relate to the entry point to this standard.

CAQ

Proposed definition of group financial statements - We recommend the Board consider removing paragraph A17 from the related application and other explanatory material.

We generally support the Board’s intent with the proposed definition of group financial statements included in paragraph 9(k) of ED-600 and the Board's intent to clarify the scope of ED-600 to include how the definition should be applied to shared service centers, entities with branches and divisions and non-controlled entities, including equity-accounted investees and investments carried at cost. While paragraph 11 of ED-600 uses the phrase “consolidation process,” we believe the Board should consider the difference in how the proposed standard uses this phrase, as compared to how the term “consolidation” is generally applied in financial reporting frameworks.

We recommend that the Board consider removing paragraph A17 of the application and other explanatory material included within ED-600. Specifically, in the context of paragraph 11 of ED-600, the Board’s intent is not clear as it relates to the following statement from paragraph A17 of the application and other explanatory material: “In some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation.” We believe that the aforementioned proposed language could be confusing to auditors and potentially result in diversity in practice as to when branches or divisions of an entity are intended to be within the scope of ED-600 and when they are not.

CPAA

We consider that the scope and applicability of ED-600 only becomes clear when you drill down into the definitions, requirements and application material. This explanation of what a group encompasses could be made much clearer in the introduction. We suggest that the entry point to the standard needs to more succinctly articulate, in the initial paragraphs, matters such as exactly the types of engagements to which it applies and the types of engagements for which it may provide useful guidance.

Specifically, whilst we support the “consolidation process” as a basis to delineate a group audit rather than solely the legal structure, as we agree that it better reflects the audit process, this term is not limited to consolidation as defined under International Financial Reporting Standards (IFRS) or in common use in other accounting frameworks. The “consolidation process” as defined in ED-600 (paragraph 11) encompasses consolidation, proportionate consolidation, the equity method of accounting, aggregation of branches or divisions’ financial information and combined financial information of entities or business units under common
control. Likewise, whilst ED-600 applies to “group financial statements”, as indicated by the title, the definition of a group is also much broader than that in the IFRS or in common use in other accounting frameworks. Group (defined in paragraph 9(f)). is a reporting entity for which group financial statements are prepared, which include the financial information of more than one entity or business unit (within a single entity) through a consolidation process (paragraph 9(k)).

Clarification of the scope of the standard could be addressed by amendments to paragraph 2 so that it is not necessary to drill down into the standard to determine if the standard is applicable. For example, this paragraph could be amended as underlined

2. This ISA applies when the auditor has been engaged to audit group financial statements. Group financial statements, as defined in this standard, are not limited to the legal structure but include the financial information of more than one entity, whether due to a group structure, equity interests or under common control, or a single entity with more than one business unit, including branches or divisions. A key factor in determining whether financial statements are group financial statements is whether financial information is prepared through a

“consolidation process” as described in paragraph 11, which includes consolidation, proportionate consolidation, the equity method of accounting, aggregation of branches or divisions’ financial information and combined financial information of entities or business units under common control.

ISA 220 (revised) paragraph A1 notes that “ISA 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm”. However, this guidance is not reflected in ISA 600 where it would be most useful in providing the scope or relevance of the standard. Consequently, we recommend inclusion of similar wording in paragraph 2 of ED-600, in addition to the suggested amendments above.

We note that paragraph 3 and application material in paragraph A16-A18 provide further clarity, which is helpful. However, the definition of component does not link with the more fulsome description of group in paragraph 3, the definitions of group financial statements (paragraph 9(k)) and consolidation process (paragraph 11) or to the related application material (paragraph A16-A18). Component includes “a location, function or activity”, whereas group financial statements and consolidation definitions both refer to “entities or business units”, including

“branches or divisions”. Whilst we acknowledge that the group engagement team may want to align the procedures with “locations, functions or activities”, which may not mirror the legal entities within a group or business units within

**ECA**

Yes, but few experts suggested to clarify further the definitions of “consolidation process” and “group financial statements”, as in practice these definitions could lead to misunderstandings.

**FAR**

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

**IBRACON**
We recommend that ED-600 be amended to include additional guidance, besides A16-A18, to clarify the ‘consolidation process’ set in paragraph 11. Further, ED-600 allows the auditor’s determination in identifying components, which can be different from the Management’s definition, and therefore it is important to include the situation whereby the group auditor determines that there is more than one component (see also response to question 6 below).

In addition, ISA 220 (Revised) in paragraph A1 states that ISA 600 may provide useful guidance in addressing circumstances that involve more than one auditor that do not meet the definition of an audit of group financial statements. However, we feel further guidance may be needed.

ICAEW

The scope and applicability of ED-600 is generally clear and we are supportive of the definition of group financial statements and the linkage to a consolidation process but respondents to our enquiries have suggested that more clarity, by way of implementation support, would be helpful to address entry point issues to ED-600. For example, this could include guidance covering scenarios such as letterbox audits.

Our outreach also suggests that there is a lack of clarity around the extent to which, and how, ED-600 applies for shared service centres which could create practical challenges for group engagement teams. Shared service centres are common, particularly in larger groups, and so clarity in how ED-600 applies to groups with shared service centres is important for ensuring consistency in approach. Without this, a potential unintended consequence might be that a ‘one size fits all’ approach becomes the norm for shared service centres, under the badging ‘consistency’ when in fact not all shared service centres are organised and operated in the same way. Alternatively, group engagement teams might adopt their own criteria to determine whether shared service centres are components and whether there is an aggregation process in the context of a group with shared service centres – leading to very different outcomes.

We encourage IAASB to give further thought to how, and in what manner, it could provide further guidance in terms of what an aggregation process might look like in the context of shared service centres and the factors that would be relevant in determining whether a shared service centre is a component.

It is not clear, for example, how group engagement teams might determine whether they have a group as defined in ED-600 in situations where there are only shared service centres operated by the business and no other components. There is also no guidance to help group engagement teams determine whether a shared service centre is a component, for example, whether a shared service centre might be a component in its own right when performing specific processing activities for another component in a group.

A6 refers to the use of shared service centres by groups that centralise activities or processes for more than one entity or business unit within the group and says that the group engagement team ‘may determine’ that a shared service centre is a component. It does not include the factors the group engagement team might take into account when making this determination, ie. the types of characteristics that might suggest that a shared service centre would be a component. For example, the group engagement team might want to look at control, ie. the extent of autonomy, nature of responsibilities and leadership. Also, the reference to ‘relevant to the group’s financial reporting process’ is vague and to ‘audit procedures are performed at that location’ outdated – ‘in respect of that location’ would be more appropriate.

Our response to the exposure drafts of the Quality Management standards encouraged IAASB to think more creatively about how it could provide additional guidance and to consider developing a new category of non-authoritative guidance, which might include examples or FAQs, targeted at different types of firm or
engagement to support the application of standards and aid scalability. Additional guidance in relation to shared service centres is another example of where this could usefully be applied.

While the scope and applicability of ED-600 is generally clear and we are supportive of the definition of group financial statements and the linkage to a consolidation process, our outreach suggests that there will be a need for greater clarity, which may be by way of implementation support or other non-authoritative guidance, to help address entry point challenges that might arise in relation to ED-600.

There is, for example, a lack of clarity around the extent to which, and how, ED-600 applies for shared service centres. The concerns relate to what an aggregation process might mean in the context of shared service centres and the classification of shared service centres as components. This lack of clarity is likely to create challenges for group engagement teams and has implications for consistency of approach.

A potential unintended consequence might be that a 'one size fits all' approach becomes the norm for shared service centres, under the badging 'consistency' when in fact not all shared service centres are organised and operate in the same way. Alternatively, it could mean that group engagement teams adopt very different criteria to determine whether shared service centres are components and whether there is an aggregation process in the context of a group with shared service centres – leading to very different outcomes.

We would encourage IAASB to give thought to how, and in what manner, it could provide additional guidance here.

ICAS

We believe that the scope is better explained in the explanatory memorandum and consideration should be given to better reflecting this in the finalised standard. Additionally, further illustrative guidance outwith the ISA on the scope would be helpful to auditors.

We are supportive of the definition of group financial statements, including the linkage to a consolidation process.

ICPAS

We support the definition of group financial statements. However, we would suggest an enhanced definition of the group audit as it pertains to separate divisions of a single legal entity. The ED includes an example of a consolidated group comprised of 15 legal entities, which for group audit purposes is combined into three components based on the commonality of information systems and systems of internal control (Application Material - A5). We would also like to see addressed the situation where a single legal entity has individual components within the one entity, and therefore, would also be considered to be a group audit.

ISCA

We support the definition of group financial statements under paragraph 9(k), including the linkage to a consolidation process, as the purpose of a group audit is to provide a basis for forming an opinion on consolidated financial statements which are outputs of a consolidation process as described under IFRS 10 Consolidated Financial Statements.

We welcome the clarification on the applicability of the standard to branches or divisions set out under paragraph A17 which explains that the standard does not apply to situations where there is no separately prepared financial information for the branches or divisions that require aggregation.
Regarding the removal of paragraph 2 in the extant standard which relates to application by analogy to a situation that is technically not an audit of group financial statements, but where there are similarities and the principles in this standard may be useful, we suggest to reintroduce this paragraph or include additional material regarding situations involving other auditors in the audit of financial statements that are not group financial statements.

**KICPA**

We believe the scope and applicability of ED-600 is, in general, clear, and also support the definition of group financial statements, including the linkage to a consolidation process.

Aside from this, we believe ① more specified and clarified explanations, using diagrams as to examples on under which circumstances entities are subject to audits of group financial statements, would be necessary, as it is difficult for a single entity to determine whether it is subject to audits of group financial statements or not on its type basis. ② It is not clear either as to under which circumstances the proposed ED-600 is applicable to, thereby creating a need for providing specified examples (e.g., ⓐ a SSC not producing financial information, ⓑ using a SSC outside the entity, ⓒ an in-house SSC of a single entity whose works are directly performed by the group auditor etc.) and the application material.

The concept of group is expanded to cover that of aggregation of the financial information. Given that for now the extant ISAs do not include requirements applied to an entity, subject to the concept of aggregation but with no consolidation process, it would be necessary for the Board to consider including paragraph 2 of extant ISA 600 of “An auditor may find this ISA, adapted as necessary in the circumstances, useful when the auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location” to the ED-600.

**MICPA**

The proposed ISA 600 (Revised) provides greater clarity on the scope, for example, it indicates clearly that the equity accounted investment and common control arrangement are covered under the proposed ISA 600 (Revised).

However, the consolidation process described in paragraph 11 of the proposed ISA 600 (Revised) in defining group financial statements particularly in relation to the aggregation of divisions of large entities that are not a parent entity of a group is not clear. Implementation guidance would be helpful in the case of various branches and outlets within an entity (e.g. banks and restaurants) and real estate investment trust (REIT).

Paragraph A17 of the proposed ISA 600 (Revised) would seem to exclude certain activities from the scope of the proposed ISA 600 (Revised) if there is no separately prepared financial information for these components and if these are performed centrally. Recognising that many groups now involve an SSC where activities are performed centrally with no separate financial information, additional clarification would be useful.

In addition, there are certain challenges to obtain access to information, component auditors and component management, as stated in paragraph 16 of the proposed ISA 600 (Revised), as there is no legal provision in our jurisdiction for such access.

**NRF**

Yes, we agree that the proposed standard with regard to scope and applicability is sufficiently clear. We also believe that the linkage to a consolidation process is helpful. However, there are still situations where more
guidance could be helpful. We would recommend the IAASB to provide more examples – outside the standard – on situations where the revised ISA 600 is or is not applicable.

SAICA

SAICA is of the opinion that the scope and applicability of ED-600 is clear.

In assessing the scope and applicability of ED-600, it appears that ED-600 adopts a principles-based approach. This is important given the diversity of group structures that may exist and the various environments and broad range of circumstances in which the final standard may be applied.

The definition of ‘group financial statements’ should include reference to paragraph 11, explaining the consolidation process. For paragraph 9(k), SAICA suggests the following wording:

9(k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. Refer to paragraph 11 for the definition of a consolidation process.

SAICA has also noted the revised definition of consolidation process as this now includes ‘the aggregation of the financial information of branches or divisions.’ Based on our understanding, this has the effect that ED-600 can be applied not only in cases where group financial statements are prepared but also in all cases where financial information of a single entity is consolidated.

SAICA welcomes the manner in which the ED-600 has been drafted as ED-600 considers the complex manner in which businesses operate and generate consolidated financial information. The ‘entry point’ to ED-600 is the preparation of group financial statements and the existence of a consolidation process in preparing financial information as defined in paragraph 11 of ED-600. Therefore, ED-600 can be adapted to various scenarios, including group audits as well as those scenarios where financial information is consolidated into group financial reports. Examples include branches and divisional financial reports of single entities.

SMPAG

We agree that the scope and applicability is sufficiently clear. In our view, the linkage to a consolidation process is helpful.

One of the issues the revision of this standard sought to address was erroneous non-application of ISA 600 to the audit of financial statements of a single entity. The title of ED-600 (whilst not changed from that of extant ISA 600) could initially be misleading because in some jurisdictions, the term “group financial statements” will not necessarily include financial statements of a single entity; even one that organizes its financial reporting process using “separate” branches or units. The explanation in para. A17 clarifies the application concept well. We therefore suggest this material might be made more prominent. As a minimum, adding “within a single reporting entity” or similar would also make para. 11(b) clearer.

SRO AAS

Separate clarifications should be provided regarding the following:

the definitions for “consolidation process” and “group financial statements”, as in practice these definitions could lead to misunderstandings.

how the standard applies to investments recorded under the equity method (i.e. the nature and scope of work performed as part of the audit of relevant entities, including the materiality of audit procedures).
Q4 - Disagree

4. National Auditing Standard Setters

CNCC-CSOEC

We consider that the scope and applicability of ED-600 is not clear enough.

We have a concern with the entry point”/ scope of ED-600, i.e. the Information system/consolidation process and the related concept of aggregation of information. We consider that this approach Is not sufficiently clear and leave room for different interpretations. The notion of •financial information“ included in the definition of group financial statements, i.e. •Financial statements that include the financial Information of more than one entity or business unit through a consolidation process•, is not clear enough and should be further clarified. The example given in A17 should be clarified, in particular with regard to the notion of •no separately prepared financial information•.

Let’s take as an example a retirement home with several branches. According to paragraph A17, we could understand the following:

- if the financial information of the branches is maintained centrally (via an ERP), the resulting financial statements do not imply a consolidation process;

- if, on the other hand, a chartered accountant prepares the financial information for each branch and such information is then aggregated, then the corresponding financial information results from a consolidation process.

Thus, according to the IT organization of the retirement home, In one case, we would have to apply the ED-600 and, In the other case, we would not, for the same financial statements at the end.

We therefore recommend to IAASB to provide practical cases Illustrating the •entry point of the proposed standard. Clarifying this issue Is essential. Otherwise, It could lead to inconsistent application of the standard.

In addition, we note that the concept of multi-location has been removed from the ED-600. We believe that it would be appropriate to reintroduce this concept by retaining paragraph 2 of the extant ISA 600, i.e. "An auditor may find this /SA, adapted as necessary In the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may Involve another auditor to observe the inventory count or Inspect physical fixed

5. Accounting Firms

GT

Whilst we appreciate the intent of the revised definition of group financial statements and the linkage to a consolidation process, we find it causes more confusion than it eliminates in a number of areas.

The definition of group financial statements includes two terms that we find to be troublesome, highlighted in bold text below.

“Financial statements that include the financial information of more than one entity or business unit through a consolidation process.”

Absent further clarification, the term ‘financial information’ encompasses too many scenarios and could result in the inconsistent interpretation of the entry point into the standard.

Consolidation process is described in the proposed standard as:
“recognition, measurement, presentation, and disclosure…of financial information of entities or business units in the group financial statements by way of:

Consolidation, proportionate consolidation, or equity methods of accounting;

The aggregation of financial information of branches or divisions, or

The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.”

Whilst we acknowledge that the description of the consolidation process incorporates the concept of combined financial statements, we recommend that specifically including a reference to combined financial statements in the definition of group financial statements would clarify that group financial statements also encompass combined, as well as consolidated, financial statements.

We believe there are a number of scenarios where this definition could lead to inappropriate application of ED-600 or is unclear as to whether, or how, ED-600 applies. Examples of such scenarios include where the entity:

Uses a shared service centre and has no other ‘components’;

Is a multi-location entity but does not necessarily require consolidation;

Is a ‘funds of funds,’ is a pension fund, is a private equity enterprise or is an asset manager; or

Where the financial reporting framework does not require the consolidation of certain component information, but which does require the disclosure of component information.

Our field testing has indicated that paragraph A17 of the proposed standard has created more confusion, than clarification, of when the standard should apply to the audit of financial statements; and in particular, it is not sufficiently clear when a multi-location audit would be excluded from the scope of ED-600. As such, we would recommend that this paragraph is removed.

Further, we note that one of the issues identified in response to the ITC was the application of extant ISA 600 to equity method investments. We note that the proposals in ED-600, which continue to treat equity method investments as a component, do not fully address the complexities in practice of applying extant ISA 600. It remains unclear why an equity method investment is treated differently from other types of investments and is considered a component in its own right, especially when it effectively only affects two financial statement line items in the consolidated financial statements. Equity method investments also present unique challenges to the determination of materiality, especially when the equity method investee is significantly larger than the group itself. The proposals in ED-600 do not address this issue or provide guidance on the allocation of component [performance] materiality in such circumstances.

We recommend that further consideration is given as to whether equity method investments should continue to be incorporated into ED-600 and to adopting the concepts applied by Public Company Accounting Oversight Board (PCAOB) in Appendix B of Auditing Standard (AS) 1105, Audit Evidence.

We are also of the view that paragraph 2 from extant ISA 600 continues to be helpful in acknowledging that some of the concepts in ED-600 could be applied to certain circumstances in a single entity audit where other auditors are involved. As such, we recommend that this paragraph is retained in ED-600.

MAZ
We believe that the definition of a group is not clear due to the definition of a “consolidation process” in paragraph 11.

Proposed definition of group financial statements – Par. 9(k), 11, A16-A18

We believe that the inclusion of "...through a consolidation process." in the definition of "group financial statements" adds undue complexity and will lead to confusion. Just because you have a consolidation, you do not necessarily have a group audit scenario. For example, you could have legal subsidiaries such as single property real estate entities or holding companies with no activity that would create a group scenario as defined. Conversely, just because you have a single legal entity and no elimination process does not mean that you do not have operations that are distinct and should be considered for auditing using separate materiality.

We would recommend that "... through a consolidation process" be removed from the definition or greater clarification of the “consolidation” concept used in the ED be provided.

While “consolidation process” is later defined, it is not used in the commonly understood context. 11a is a classic consolidation process. 11c technically is a combination, though we would not object to this being part of the definition as the considerations are essentially the same and we are only dealing with legal structure. However, the inclusion of 11b re: divisions or branches and the accompanying guidance in A17 and A18 adds a new concept and, as drafted is confusing, and may lead to inconsistent application of the guidance.

Lastly, while it makes sense to have the auditor be responsible for determining components, there is potential for conflict with the reporting structures of the company that may make it difficult or impossible to obtain summarized financial data at the level of the identified “component”. As such, we would recommend including a consideration of the client’s organizational and reporting structures when assessing the components of the business.

Overall the focus seems to more on legal and accounting structure versus the activities of the company. We would recommend either clarifying the guidance presently or adjusting the focus to the operational activities.

To illustrate out concerns, let's take as an example of an entity with several branches. According to paragraph A17, if the financial statements of the branches are maintained centrally (via an ERP), they do not represent consolidated financial statements. If, on the other hand, a chartered accountant prepares financial information for each branch that are then aggregated, then the corresponding information represents consolidated financial statements with reference to paragraph A17. Thus, in one case, we would have to apply the ED-600 and in the other case, we do not, for the same financial information at the end.

Last, a paragraph should be added in the scope to clarify that the ISA applies equally to the audit of single entities where there is reliance on another auditor.

MAZUSA

We generally support the Board’s intention to clarify the scope of ED-600. However, we believe that Exposure Draft adds undue confusion when defining the term “group financial statements,” which will lead to unintended consequences and diversity in practice in the application of the proposed standard. We recommend that the Board reconsider the definition of group financial statements to exclude the reference “...through a consolidation process”. A “consolidation process” is generally understood to have a certain meaning in relation to financial reporting frameworks. The Board’s use of the term with a different meaning, or intended interpretation, will lead to inconsistency in implementation. Further, we do not understand the Board’s intent
in the application and explanatory material in paragraph A17 related to branches and divisions. This language may result in differences in practice related to determining when branches and divisions are included in the scope of ED-600. We recommend paragraph A17 be deleted.

7. Member Bodies and Other Professional Organizations

IPA

The IPA has concerns with the linkage to the consolidation process – it causes confusion and can lead to inappropriate conclusions in certain circumstances.

The emphasis on the existence of elimination entries (A18) is inconsistent with a risk-based approach to determining audit components. A group may consist of two or more divisions with distinct businesses, risks, internal controls and sharing a general ledger but with no intercompany transactions. The auditor may correctly determine the divisions are audit components on a risk basis (including assigning different audit teams to the operation divisions) but the lack of a consolidation process would result in ISA 600 not being applicable.

Similarly, the application guidance at A17 posits that where there is a centralised accounting function and no aggregation of financial information occurs ISA 600 is not applicable. This guidance and subsequent conclusion are also inconsistent with a risk-based approach. Sales, inventory and other systems and associated controls and management oversight may be divisional even where general ledgers and even payment systems are centralised. In such circumstances, a group audit approach may be applicable despite the existence of a shared services accounting function.

Q4 - No Comment

1. Monitoring Group

IFIAR
No comment

2. Investors and Analysts

CRUF
No Comment

3. Regulators and Audit Oversight Authorities

CPAB
No Comment

CSA
No Comment

MAOB
No Comment

4. National Auditing Standard Setters
ICAI
No Comment

8. Academics
AFAANZ
No comment

GRAHAM
No comment

LI
No Comment

9. Individuals and Others
PITT
No Comment