ED-600 Question 8(a) – Are the Responsibilities of the GET and CAs Clear and Appropriate

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<td>Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks?</td>
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<td>In particular, the IAASB is interested in views about:</td>
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<td>(a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?</td>
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<td>(b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?</td>
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<td>(c) What practical challenges may arise in implementing the risk-based approach?</td>
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Note: for the purposes of the NVivo analysis, responses on this question were separated between three parts: question Q8, Q8(a)” and “Q8(b)”. Question 8(c) will not be discussed at the December 2020 IAASB meeting.

Q8(a) – Agree

1. Monitoring Group

BCBS

The Committee believes that the respective responsibilities of the group engagement team and the component auditors and the interaction between them are clear in ED-600. In particular:

ED-600 clarifies the interactions that are needed between the group engagement team and the component auditors under the risk-based approach throughout the different phases of the audits of group financial statements and makes it clear that when component auditors are involved, they are an integral part of the engagement team.

ED-600 states that the group engagement team has overall responsibility. Component auditors may be involved and when component auditors are involved, the group engagement team needs to direct, supervise and review their work.

4. National Auditing Standard Setters

AICPA

For those questions that we have not provided a response, we have no further observations or comments.
5. Accounting Firms

CG
The respective responsibilities of the group engagement team and component auditors are clear and appropriate.

CR
The respective responsibilities of the group engagement team and component auditors appear to be clear and appropriate.

MNP
Yes, the respective responsibilities of the group engagement team and component auditors are clear and appropriate.

PKF
The responsibilities of the group engagement team and component auditors are clear and appropriate.

6. Public Sector Organizations

AGM
Yes, the respective responsibilities of the group engagement team and component auditors are clear and appropriate.

AGSA
The respective responsibilities of the group engagement team and component auditors are clear and appropriate.

PAS
Yes, the respective responsibilities of the group engagement team and component auditors are clear and appropriate.

7. Member Bodies and Other Professional Organizations

BICA
The respective responsibilities of the group engagement team and component auditors as outlined in the proposed standards are clear and appropriate.

CalCPA
Yes, we believe that the respective responsibilities are clear and are supportive of the guidance afforded to the group auditor in carrying out his responsibilities for communication, risk assessment, overall audit strategy, etc.

ICAS
Additionally:
We believe that the respective responsibilities of the group engagement team and component auditors are clear and appropriate.

ICPAS
In responses to 8. (a), we believe this is appropriately addressed

IIA
Yes.

IMCP
Yes, it is clear

INCP
Answer: Yes, ED-600 elaborates on the group’s audit team’s responsibilities regarding the engagement, in which own activities must be performed in order to meet certain goals, such as:
- engagement acceptance and continuance,
- risk identification, including component risks,
- communications with components in the oversight involvement, and
- the assessment of sufficient appropriate audit evidence in order to reach a conclusion on the group’s consolidated financial statements.

SAICA
The respective responsibilities of the group engagement team and component auditors are clear and appropriate.

8. Academics
HUNTER
We believe the respective responsibilities of the group engagement team and component auditors are clear and appropriate in the ED-600.

9. Individuals and Others
VERA
Yes

Q8(a) – Agree with comments

1. Monitoring Group
IAIS
The IAIS also believes that the respective responsibilities of the group and component auditor are clear (eg the standard is clear that the group engagement team has overall responsibility). We note there are a
number of practical challenges to undertake a risk-based approach – but do not believe these mean the risk-based approach should not be applied.

For example, additional challenges in a group context may include increased complexity of group structures and operations that makes it difficult to understand and assess the risks (eg risks are spread across entities, complex intra-group transactions can obscure risks). These practical challenges may mean that it is challenging for the group engagement team to have a comprehensive understanding of the environmental factors affecting the group (eg different laws, regulations, economic conditions).

This is particularly the case for certain sectors (eg insurance sector) that are subject to extensive and detailed regulations.

In these special contexts, the IAIS believes that the group engagement team may need to make use of the expertise and local knowledge of the component auditors to properly understand and assess the risks. An effective two-way communication between the group engagement team and component auditor will be important in this regard. Such communication may also help to mitigate possible challenges for the group engagement team in assessing the adequacy of the component auditor’s work.

Furthermore, where a risk of material misstatement is spread across a number of jurisdictions, it is the responsibility of the group engagement team to identify, assess and determine the procedures that need to be undertaken.

IFIAR

Component auditor oversight

There is limited guidance on when a group auditor is expected to visit CAs or when the GET should review the CA’s documentation. It is unclear how the risk-based approach used to determine the work efforts of the CA could translate into the actual procedures expected to be performed by the GET and/or CA. ED-600 proposes that the higher the auditor’s assessment of risk, the more persuasive audit evidence needs to be obtained and more involvement of the GET would be expected. The requirements in paragraph 32 should include additional application material on actions the GET can take as the risk associated with a component increases, either due to significance or risks assessed at the higher end of the risk spectrum, combined with the knowledge, skill and ability of the CA.

The proposed ED-600 leaves too much flexibility for the GET to conclude that it is not necessary to visit or review the working papers of the CA where the CA is part of the same network of firms. Paragraph 45 (b) states that the GET is required to “determine whether, and the extent to which, it is necessary to review parts of the CA’s audit documentation”. We recommend that the requirements be strengthened by moving the application material in A 113 into the requirements section. Also, further application guidance is necessary to understand to what extent the firm’s policies or procedures impacts the nature, timing, and extent of the GET’s review of the CAs documentation.

IOSCO

Additionally, we appreciate the Paper’s explicit emphasis on the fact that the group engagement partner is ultimately responsible, and therefore accountable, for managing and achieving quality on a group audit, including compliance with ISA 600 (Revised) as well as all other ISA requirements. We also appreciate the Paper’s focus on the direction, supervision and review of the work of the component auditor by the group engagement partner and the group engagement team, which we believe is an improvement from extant ISA 600. Having said this, we encourage the Board to emphasize in the final standard that the group
engagement partner cannot be absolved from or otherwise delegate his/her responsibility for the planning and execution of the group audit.

However, in addition to the explicit requirements for the group engagement partner and group engagement team, we believe the Paper should be more robust in also articulating the requirements and responsibilities of component auditors throughout the various stages of the group audit. Some examples of potential requirements for component auditors are further discussed below, under “Preliminary Risk Assessment Process of the Component”, “Fraud Risk” and “Documentation and Access Restrictions”.

In addition, we encourage the Board to set clear expectations of whether some audit procedures need to be performed on all components. If no audit procedures are to be performed at certain components (because no risk of material misstatement of the group financial statements is identified individually and in aggregate at these components), the Board should provide guidance for the group engagement team to consider when evaluating aggregation risk – see further discussion on aggregation risk below.

3. Regulators and Audit Oversight Authorities

CEAOB

We believe that the requirement of paragraph 34 should be that the group engagement team not only “take responsibility” for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. The team, with the involvement of the component auditor(s) where deemed necessary, should also “design and perform” those procedures, including those stipulated in subparagraphs (a) and (b).

CPAB

Component auditor oversight

There is limited guidance on when a group auditor is expected to visit a component auditor or when the group engagement team should review the component auditor’s audit working papers. It is unclear how the risk-based approach used to determine the work efforts of the component auditor could translate into the actual procedures expected to be performed by the group engagement team and/or component auditor. ED-600 proposes that the higher the auditor’s assessment of risk, the more persuasive audit evidence needs to be obtained and more involvement of the group engagement team would be expected. The requirements in paragraph 32 should include additional requirements or application material on actions the group engagement team can take as the risk associated with a component increases due to significance or risks assessed at the higher end of the risk spectrum, combined with the knowledge, skill and ability of the component auditor.

ED-600 leaves too much flexibility for the group engagement team to conclude that it is not necessary to visit or review the working papers of the component auditor where the component auditor is part of the same network of firms. Paragraph 45(b) states that the group engagement team is required to “determine whether, and the extent to which, it is necessary to review parts of the component auditor’s audit documentation”. These provisions, associated with the application material (A 113), are insufficient to determine the level of review needed and should be strengthened by including a requirement for the group engagement partner to evidence their oversight as defined by ISA 230, Audit documentation (ISA 230) paragraph 8-11 and revised ISA 220, Quality control for an audit of financial statements (ISA 220) paragraph 17 (A 17 to A 18).

In many cases auditors and companies attempt to use component auditors from the same network as the group auditor. ED-600 appears to indicate that the work effort required to review the component auditor’s
work would be reduced if that auditor is from the same network (A 46). The standard should be neutral in this regard and the amount of work effort should depend on the specific facts and circumstances of the group audit engagement and the firm, as described further below under quality management standards.

**CSA**

Component auditor review by the Group

We support the need for robust communications and interactions between the Group engagement team and the component auditors. However, the proposed amendments may result in substantial flexibility for the group engagement team to conclude that it is not necessary to visit or review the working papers of the component auditor where the component auditor is part of the same network of firms. It may be the case that a network of firms may have inconsistent practices across offices and countries, and therefore we believe ED-600 should acknowledge that having the same network in place for the group and the component should not by itself be a sufficient reason to conclude that the component auditor’s work does not need inspection or review by the group auditor.

**IAASA**

Responding to the Assessed Risks of Material Misstatement

We believe that the requirement of paragraph 34 should be that the group engagement team not only “take responsibility” for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. The team, with the involvement of the component auditor(s) where deemed necessary, should also “design and perform” those procedures, including those stipulated in subparagraphs (a) and (b).

**IRBA**

We believe that the respective responsibilities of the group engagement team and component auditors are clear and appropriate.

Due to its importance in a group, we suggest that the IAASB considers including “governance arrangements” in paragraph 24 of ED-600, as part of the group engagement team’s responsibility on which to obtain an understanding.

We urge the IAASB to ensure that the finalised ISA 600 (Revised) is clear on the requirements/expectations with regard to the review of the component auditor’s working papers, including the responsibility of the engagement quality control reviewer, where applicable.

**UKFRC**

Involvement of CAs

Enhancing the introduction of the standard to illustrate when the involvement of CAs is likely to be a key aspect of group audits, recognising that CAs can be, and often are, involved in all phases of a group audit engagement. This is well articulated in Appendix 1 to the standard, and the introduction should be raised to the same level. An example might be when CAs have more in-depth knowledge of a component, and as a result the GET intends to obtain the assistance of the CA to determine the nature, timing and extent of risk assessment or further audit procedures.
In general, we agree that respective responsibilities of, and interactions between, the GET and CAs are clear and appropriate, as set out in the introductory paragraphs and the requirements and the application material. Our stakeholder engagement identified a need to clarify the following matters:

Responsibility for managing and achieving audit quality

We do not believe that ED-600 appropriately addresses the requirements of ISA 220.14, as they relate to the group engagement partner’s responsibility to establish and communicate the expected behaviour of engagement team members including achieving quality and exercising professional skepticism throughout the audit (as discussed in our response to Question 3). Whilst we recognise that there are circumstances where it is not possible or practical to do so, particularly when the engagement team includes a large number of CAs located in multiple locations, both ISA 220 and ED-600 explain the mechanisms by which such responsibilities can be discharged, including in very large group audit teams.

In finalising ED-600 we recommend that the IAASB extend the requirements and application material to appropriately supplement 220.14 in the context of a group audit. We have included suggested wording in Appendix 2 in that regard.

4. National Auditing Standard Setters

AUASB

Component auditors

While the AUASB largely supports that the decision of the nature and extent of the involvement of component auditors should be determined by the group engagement team based on an assessment of risk, the AUASB highlights that component auditors may not hold a sense of accountability and responsibility towards the group auditor and that this may impact on the auditors exercise of professional scepticism in the audit work assigned to them.

The exercise of professional scepticism by component auditors is particularly at risk where the involvement of the component auditors is limited to specific further audit procedures as identified and communicated by the group engagement team. These limited procedures could imply that the component auditor is only required to undertake those procedures with no other professional judgement or professional scepticism required to be applied. The AUASB suggests that the application material in ED ISA 600 needs to reinforce the importance of professional judgment and professional scepticism by component auditors, as well as the inclusion of additional application material highlighting the importance of teams working towards a common goal as well as further emphasising some of the risks to consider when dealing with diverse teams and entity management across multiple jurisdictions.

Finally, the AUASB highlights that the standard may diminish the importance and role of component auditors, with too great a focus on the group auditor. Australian stakeholders fed back to the AUASB that they considered ED ISA 600 may be interpreted so that it is more efficient and effective for the group engagement team to directly perform much of what component teams are doing today and there is an unintended consequence that, under ED ISA 600, the group engagement team would be better off performing as much work centrally as possible. The view expressed in our outreach was that ED ISA 600 does not sufficiently recognise that, for groups that are complex and large that may need localised knowledge and specialisation, high levels of involvement by component auditors is of critical importance to audit quality. Whilst this is a matter of the group auditor’s professional judgement, our recommendation is that the IAASB consider providing additional guidance that highlight potential risks associated with lower levels of component auditor involvement.
Further information relating to these points about Component Auditors in the proposed standard is in the AUASB’s response to Questions 3 & 8 in Attachment 1 to this letter.

Further to our response to question 3, the AUASB highlights that the standard may be diminishing the importance and role of component auditors with more of a focus on the group auditor. ED-600 may be interpreted that the group engagement team should directly perform or take over much of what component teams are doing today and there is a focus on the group engagement team performing as much work centrally as possible. In our view ED-600 does not sufficiently recognize that, for groups that are complex and large that may need localised knowledge and specialisation, high levels of involvement by component auditors are of critical importance to audit quality. Whilst this is a matter of the group auditor’s professional judgement, our recommendation is that the IAASB consider providing additional guidance that highlight potential risks associated with lower levels of component auditor involvement.

We further understand there to be a body of research that reflects that component auditors, coming from different offices, do not always consider themselves part of a team, which may impact coordination efforts, and reduce the effectiveness of component auditor’s work. Academic research indicates that fostering a team identity is important for all distributed teams, even teams from the same office. To this end, the AUASB supports extending the application material supporting paragraph 12 to set the tone in facilitating efforts of the entire group engagement team, a team identity with a common goal. The AUASB notes that the Explanatory Memorandum notes that when component auditors are involved, they are an integral part of the engagement team. The proposed standard, however, does not effectively reflect this sentiment.

CAASB

We support the flexibility provided in ED-600 for the GET to perform risk assessment procedures and involve a CA as necessary. However, we believe the following matters require further consideration.

When it is appropriate to conduct each of the “further audit procedures” listed in paragraph A97, with examples

Stakeholders struggled to understand what is contemplated by the “further audit procedures” outlined in paragraph A97. We recognize that this phrase is aligned with ISA 330, however stakeholders found this phrase difficult to apply in the context of a group audit. They struggled to identify when it may be appropriate to have the CA conduct further audit procedures under each of the three approaches identified in paragraph A97. Practitioners also asked for examples of possible procedures under each approach.

Purpose of paragraph 28(b)

Stakeholders are confused about the objective of paragraph 28(b). Some stakeholders believe this paragraph requires the GET to share information regarding any events or conditions that could impact the group entity’s ability to continue as a going concern that are identified by one CA, with all other CAs. However, they are not clear how sharing this information would be relevant to the other CAs. Other stakeholders thought it unlikely that a CA would be able to identify events or conditions that would impact the group entity’s ability to continue as a going concern since they are only involved in auditing one component and would have a limited view of the group entity. We recommend that this requirement be clarified.

CNCC-CSOECC

We consider that with a top-down approach, as proposed in the ED-600, the group engagement team may not identify certain risks that can only be identified locally, especially risks related to tax, fraud or going
concern. For example, if there is a problem in the local market with potential impact on the group’s going concern, the group may not be aware of it. We therefore recommend that the IAASB emphasize the importance of having sufficient local knowledge to obtain an appropriate assessment of the risks of material misstatement of the group financial statements.

HKICPA

ED-600 focuses on the group auditor’s responsibilities in a group audit engagement, whereas the responsibilities of component auditors in ED-600 are limited to complying with the group engagement team’s instructions and the communication requirements in paragraph 44. As ED-600 strengthens the group engagement team’s involvement in and communication with the component auditor, it will be helpful if the IAASB can develop additional material to clarify expectations on component auditors in the context of ED-600.

ICAI

45. The group engagement team shall:

(a) Discuss significant matters arising from the communications with the component auditor, component management or group management, as appropriate;

(b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor’s audit documentation; and (Ref: Para. A113)

(c) Evaluate whether the communications with component auditors are adequate for the group engagement team’s purposes.

Our Views:

As per paragraph 45(b), group auditor is permitted to review working papers of component auditors. However, as per the provisions of the Code of Ethics, Volume II (Revised 2020) issued by ICAI, sharing of working papers is not allowed. The relevant provisions of the Code of Ethics are as under:

Working Papers of the Auditor

Paragraph 2.15.1.1(v)

An auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a Company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor. For this purpose, the term ‘auditor’ includes ‘internal auditor.

JICPA

Clarifying the component auditor’s responsibilities

We agree that it is appropriate, by itself, to reinforce the group engagement team’s responsibility through the risk-based approach for the risk assessment procedures and further audit procedures over the financial information of the component. However, there are several descriptions which, by overemphasizing it, could
cause the misunderstanding that the component auditor’s responsibilities under ED-600 would be lighter than those under the extant ISA 600.

We should clarify that the component auditor is responsible for exercising professional skepticism and obtaining sufficient appropriate audit evidence as directed and supervised by the group engagement team. We believe that it is essential for the component auditor to take this responsibility in order to achieve a high-quality group audit (see our comments to Questions 3 and 8(a)).

We believe that reinforcing the group engagement team’s responsibilities, in itself, is appropriate, but there are several descriptions which, by overemphasizing it, could cause the misunderstanding that the component auditor’s responsibilities under ED-600 would be lighter than those under the extant ISA 600.

For example, paragraph A100 states that “the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.” However, we believe that this consideration should be the component auditor’s responsibility, and using the word “may” sounds as if the component auditor’s responsibility would be lightened.

To clarify the component auditor’s responsibilities, we suggest that a requirement or application material be established for, for example, the following points.

The component auditors shall perform their work in accordance with the direction and supervision of the group engagement team, in compliance with appropriate auditing standards such as ISAs.

In the course of the component auditor’s work, when the component auditor identifies an indication of fraud or possible material misstatement, the component auditor is responsible for obtaining sufficient appropriate audit evidence by carefully performing further audit procedures with professional skepticism.

It is recommended that an engagement quality review be performed for the component auditor’s work if it is appropriate in light of, for example, the degree of risks of material misstatement.

NBA

We have some remarks regarding the description of the respective responsibilities. Although two-way communication is mentioned, the descriptions and interactions are mainly top-down. On one hand, this seems obvious as the group auditor is ultimately responsible. On the other hand, component auditors have the best understanding of the component and bottom-up communication is valuable. In our opinion, two-way communication is insufficiently addressed in the ED. We recommend stressing the two-way communication and involving the component auditors early in the process of the group audit.

Appendix 5 Required and additional matters included in the group engagement team’s letter of instruction in the current ISA 600 is useful. In the explanatory memorandum it is stated that this is outlined in the Standard itself and is no longer necessary. However, we consider this appendix as still useful as this gives a summary and it is not stated in documentation requirements. We recommend reconsidering the removal of this appendix.

We also have some detailed remarks about the responsibilities which are described below in Q8c.

The description of interactions and involvement might be further enhanced. We suggest to include a diagram to make this visible and a separate appendix to give some concrete examples. We recommend including going concern and related party issues also in paragraph 44 and not only in paragraph 41 or to
remove them from paragraph 41. We are of the opinion that it is preferable to have all the requirements in one paragraph.

5. Accounting Firms

BDO

By focusing the ED-600 directly at the group engagement team and presenting requirements that relate to those situations when a component auditor is being used by the group engagement team separately at the end of each section, this structural approach aids understanding of respective responsibilities.

We are also supportive of the clarity that the ED-600 brings with respect to responsibilities within the group engagement team through use of ‘group engagement partner shall’ and ‘group engagement partner shall take responsibility for’ requirements. Although this does add to the list of group engagement partner responsibilities, it also lays out a clear separation between different types of roles and responsibilities that may be performed by the wider group engagement team and/or component auditors. However, given that component auditors may be used by group engagement teams for different purposes (depending on the nature of each group audit, work allocated to component auditors, etc.) we did note that the ‘shall take responsibility for…’ requirements raised further questions about:

To what extent tasks may be delegated to component auditors, and

Whether there would still need to be minimal procedures performed by the group engagement partner (to ensure sufficient direction, supervision and review had been performed) in order that delegated tasks been properly carried out.

This may be an area where ED-600.A49-A52 may require further content or examples (or the provision of implementation support materials) to show how group engagement partner delegation may need to be flexed depending on the nature of tasks being delegated to component auditors.

We also support the continuing drive within ED-600, which builds on the principles of ISA 315 (Revised) towards ensuring the group engagement team develops an improved understanding of the group. In our view, having this deeper understanding of the entity that is being audited is a critically important factor in enabling group engagement teams to be able to perform their role as group auditor.

Clarity of the group engagement team’s responsibilities, however, does come with some costs – specifically there is a risk that this expanded set of requirements have become even more directive and prescriptive in order to outline what is expected of a group engagement team; this could be seen as a move away from a principles-based standard and may of itself be less helpful when considering the complexity of a group audit situation, which needs to be even more flexible than a single entity audit, in order to address different facts and circumstances.

One area that may require further clarification is that of the role of component auditors. We appreciate that ED-600 is drafted through the lens of the group engagement team and we note the clearer signposting, within each section, of requirements that apply when a group engagement team is using component auditors. One way of alerting both group and component auditors to the nature of their roles could be to highlight those situations when a group engagement team may need to actively follow up with component auditors to confirm component auditors’ (1) understanding of what is expected of them and/or (2) progress on an allocated task/action. For example:

In ED-600.A34-A35 where we consider the nature of access by the group engagement team, this application material could be expanded to indicate the two-way nature of the relationship (i.e., the
expectation placed on component auditors to support access to information by the group engagement team, to confirm there will be access provided to component auditor working papers (when there are no legal impediments), etc.

ED-600.A82 could be expanded to reflect that the group engagement team proactively engages with component auditors to ensure potential risks affecting the group financial statements are being communicated to the group engagement team.

ED-600.A96-A101 could be enhanced to emphasize that previous insights obtained by the component auditor about the entity may help inform the group engagement team’s approach to determining what evidence is likely to be required.

ED-600.A110 could be extended to note the importance of component auditor timely response and/or engagement with the group engagement team.

It may also be appropriate for the IAASB to consider developing implementation support materials that describe to component auditors the changed nature of their role as a result of ED-600 while also highlighting other potential impacts on how component auditors perform their role (such as the expectation of increased two-way communication or likelihood of being subject to a more ‘directed’ approach by the group engagement team).

**BT**

Yes. The division of responsibility for the risk assessment and responses are clear in the standard as is the ability to delegate the execution of the risk assessment and responses. Practically however, the removal of the significant component vs insignificant component guidance may mean that teams are less certain about which entities require audit procedures and which can be addressed with lesser procedures due to their size and nature.

**ETY**

Yes, the respective responsibilities of the group engagement team and the component auditors and interactions are clear. However, we do believe that the requirements (par.25 to 28 and par.43) and the application material (par.106 to par.113), while claiming a two-way communication seem to ignore the needs of the component auditors in planning and executing the audit including risk of material misstatements assessment (no requirements for the group engagement team to provide information to them).

**EYG**

Our main observations and recommendations are as follows:

We support the overall premise that the group engagement team takes responsibility for the risk assessment procedures and work performed to support the group audit opinion. We also strongly believe and agree with the IAASB that sufficient and appropriate involvement of the group engagement team in the work of the component auditors is critical. As indicated in Question 2, we agree and, for the most part, support the enhanced considerations when component auditors are involved. Informed by our field testing activities, we are challenging what appears to be a presumption in ED-600 that the group engagement team should directly perform or take over much of what component teams are doing today in operationalizing the scope options in extant ISA 600.
The strong focus on the group engagement team responsibility and a top-down approach to the group audit is negatively affecting perceptions about the important role of the component auditor and the scalability of the standard. It was observed during our field testing activities that the requirements appear to be more capable of application to non-complex group structures, groups with centralized operations, or smaller-size groups with no, or limited to few, cross-border locations.

More work being performed centrally by the group engagement team may be desirable for the reasons noted in ED-600 and explanatory material; however, ED-600 does not sufficiently recognize and promote the fact that, for groups that are complex and large, high levels of involvement by component auditors are of critical importance to audit quality. In particular, significant challenges were highlighted in applying the risk-based approach for groups where there is not a high degree of centralization or a sufficient degree of homogeneity across business lines. Overall, the feedback was that the new approach could lead to:

Under-auditing certain areas due to the group engagement team potentially not identifying risks of material misstatement to the group that are less obvious or specific to individual components and that would only be identified by adequate involvement of the component auditors.

A wide diversity in practices across teams and firms due to highly iterative nature of the requirements and significantly reduced structure in the approach to determining components and scoping the work; both of which will result in the need for a significantly increased extent of interpretative guidance for teams to be capable of implementing the proposed risk-based approach at an appropriate level of consistency.

Despite our concerns about ED-600 underplaying the importance of the involvement of component auditors, we agree that where homogeneity exists in the group, and due to advances in groups’ IT infrastructure and operations coupled with advances in technology used by auditors, including for data capture, there are greater opportunities to perform work centrally (in relation to this comment, we also refer to Question 12 Automated tools and techniques). We support the removal of the rigid scoping options in extant ISA 600 to accommodate increasing flexibility for the auditor to apply centralized procedures and to further tailor the audit approach when commonality of controls exists.

In summary, we strongly agree it is appropriate for the group engagement team to be ultimately responsible for the group audit opinion. Only the group engagement team can have an overall perspective on the consolidated financial statements resulting from a combination of information, including the discussions with group and component management, the understanding of the group, and information about the components resulting from interactions with the component auditors. What is critical however is a flexible approach to the involvement of component auditors, and allocation of work, which results in a cooperative effort to the audit focused on the appropriate risks with sufficient involvement of the group engagement team in the component auditors’ work. Although the approach needs to be flexible, it also needs to be capable of consistency in application. We do not believe that ED-600 includes an approach that meets these objectives.

Our recommendations for enhancements to address our concerns include:

Balancing the current top-heavy approach to risk assessment with a bottom-up approach that explicitly recognizes the important role of the component auditor

Providing a framework for determining components, involving component auditors and determining the allocation of risk assessment procedures to component auditors

Providing a framework for the approach to responding to the assessed risks, including the scope of work assigned to components and factoring in the concepts of centralized activities and commonality of controls
Balance the top-down approach with a bottom-up approach to recognize the important role of the component auditor.

As indicated in Question 3, the current structure of ED-600 places increased focus on the group engagement team’s ultimate responsibility to perform procedures centrally and what seems to be only an alternative, allows for the involvement of component auditors (see ED-600 paragraph A87 for a clear example). Although ED-600 acknowledges that the involvement of component auditors is often needed, this is portrayed in ED-600 as a less desirable approach compared to the group engagement team performing procedures centrally. We are very supportive of performing work centrally (refer to Question 9); however, this can only be done under certain circumstances and where appropriate and is not always a possible option. Many groups have business units and entities operating in different industries and geographical locations with different risks of material misstatement (e.g., differences in local risks, laws and regulations, work practices, accounts, processes or reporting requirements) for which the group engagement team will not have an in-depth understanding and cannot practically acquire such understanding at the desired level of detail as the number of components in the group increases.

The key to the ability for the group engagement team to take a risk-based approach is in the effective performance of identifying and assessing risks of material misstatement to the group financial statements. We do not believe the ED-600 approach to risk assessment is effective because it does not set a clear expectation that for a majority of groups (particularly those that are large and complex) risk assessment procedures at the component level, with the involvement of component auditors, are likely a necessity for audit quality. And, involvement of component auditors in responding to the assessed risks is also likely a necessity. However, the nature and extent of involvement will of course vary across groups and components.

Although possible for some groups, it is unlikely for most groups that the group engagement team will have the required in-depth understanding of the business and risks relevant to the components, even on recurring audits. Although the group may have a very good understanding, the differences in culture, people, environment and other circumstances related to the component are an important lens to risk assessment. In practice, we often see an approach where the understanding of the group entity and its environment, including the control environment, is initially performed centrally but also supplemented (sometimes extensively) at the component level to incorporate the knowledge of the component auditors. Similarly, when centralized procedures are performed, validation of results can often occur with component auditors.

As indicated in Question 4, we see a significant unintended consequence to downplaying the role of the component auditor and the value of their knowledge, which is a risk to the appropriate exercise of professional judgment and professional skepticism by both the group engagement team and component auditors. There is also the risk of inappropriate or incomplete risk assessment and response, which of course may lead to issues in obtaining sufficient appropriate audit evidence.

Related, we disagree with the wording used in paragraphs 25 and 32 that the group engagement team only needs to “consider” the results of risk assessment procedures performed by the component auditors. This is one of the requirements where we believe the role of component auditors is discounted. We believe there should be a clear decision by the group engagement team as to when component auditors are involved in risk assessment and that, based on that decision, their work should be evaluated and taken into account in the risk assessment to the group financial statements. Paragraph A96 is positive in recognizing that component auditors may have more in-depth knowledge, but this paragraph is only positioned in context of
designing and performing further audit procedures, and not risk assessment. At a minimum, we propose editing the requirement as follow “the group engagement team shall evaluate the results”.

To enhance scalability, ED-600 could include additional application guidance in relation to paragraph 32, to indicate that the group engagement team may assign risk assessment procedures to component auditors managing sub-groups of components that have common characteristics. This would be a step forward to operationalize the requirements, particularly for large or more complex groups.

Group audit considerations for identifying and responding to fraud risks

The guidance in paragraph A80 related to fraud is quite limited as it only addresses a list of possible information sources for the group engagement team to execute the requirements of ISA 240. Consistent with our view that component auditor involvement is important to understanding the component and the control environment, we expect the same principles apply for identifying fraud risk factors and related risks of fraud, in addition to designing responses. Incentives, opportunities and pressures at the component level may differ and may not be easily visible to the group engagement team.

We also suggest ED-600 include guidance regarding the extent of the procedures to be performed on fraud across the group and the impact thereon on the group audit scope. It is also unclear how the auditor should apply required procedures in a group audit, such as management inquiries, as well as procedures in relation to management override, including in context of the required procedures on the consolidation process.

Framework for determining components and approach to risk assessment

We understand the iterative and dynamic nature of the risk-based approach; however, to be operational, there must be a starting point coupled with enough guidance to drive consistency in the process for determination of components and the approach to risk assessment. The current draft implies that components would be identified at the acceptance and continuance stage, which we do not believe is a practical expectation as expressed in our response to Question 4. The risk-based approach in ED-600 does not set a clear expectation for the approach to determining components or the performance of risk assessment procedures at the component level. In extant 600, the concept of significant components and the related required risk assessment requirements provide a clear starting point. Although we understand and agree with removing the concept of significant component, we believe that there is a gap to be filled for the purposes of the group engagement team’s determination of components, which will also affect the approach to risk assessment.

Despite our agreement with removing the concept of “significant component”, we believe that a concept of significance remains relevant and would help to more practically operationalize the risk-based approach. Beyond significance, the considerations and elements in A56 through A65 also are relevant to the determination of components and the approach to involving component auditors in risk assessment, but this guidance is not placed in that context.

A clear starting point, as well as further qualitative considerations about the nature and circumstances of the components, would be the key elements of a framework for determining group audit structure and a risk assessment approach. A framework is needed to sufficiently develop the preliminary group audit scoping expectations and to commence identification and involvement of component auditors.

Without a framework, there is a risk of an overly iterative process of identification and assessment of risks of material misstatement. This risk is due to the focus on the group engagement team performing risk
assessment in what is perceived to be a central and isolated manner, which will inevitably need iterative refinements with involvement of component auditors. Performing risk assessment in this manner presents a logistical challenge to securing component auditors, including scheduling their involvement at the right points in time. This approach also has a risk of an imperfect, and likely inefficient, risk assessment. It was observed in our field testing activities that this approach would be particularly challenging on initial audits.

The framework also needs to address the level at which risk assessment procedures are performed. In particular, the following matters need to be addressed in order for the outcome of the risk assessment to be a clear foundation from which to design and perform further audit procedures:

Although the requirement to identify and assess risks of material misstatement to the group financial statements in paragraph 32 is clear, how component performance materiality is applied in risk assessment is unclear. The revised definition of component performance materiality indicates it is applicable in planning and performing “audit procedures”, which presumably includes risk assessment procedures.

Related, it is unclear how the concept of significant classes of transactions, account balances and disclosures, introduced in ISA 315 (Revised 2019), is implemented in group audits. Presumably, the risks of material misstatement in the group financial statements define the significant classes of transactions, account balances and disclosures at the group level. It is unclear whether significant classes of transactions, account balances and disclosures also are determined at the component level based on the risk assessment procedures performed by component auditors, assuming their use of component performance materiality.

Framework for responding to the risks of material misstatement

We support the change in ED-600 to move from a prescriptive approach to scoping the audit to a principles-based approach that allows for flexibility to tailor the approach to responding to the risks. However, consistent with our views on risk assessment, we do not believe that the guidance is sufficient to drive consistency in application.

Paragraphs A85-A90 set forth an approach that appears to drive a focus on performing as much work centrally as is feasible, with a statement that only when there is complexity and diversity in the group, there may be a need to involve component auditors. This is another example of where the role of component auditors is discounted. However, as expressed in our response to Question 9, we strongly support the enhanced guidance on centralized activities and commonality of controls and the fact that these concepts contribute to the ability to perform centralized procedures, so we support the emphasis being given to these concepts in the guidance.

Separately, in paragraphs A96-A101, the scoping options and guidance for the involvement in component auditors is also largely maintained intact from ISA 600 (i.e., audit procedures on the entire financial information of the component; audit procedures on or more classes of transactions, account balances or disclosures, and specific audit procedures as identified by the group engagement team).

The result of the clear separation of the guidance for procedures performed centrally from the guidance for component scoping options creates a disconnect in understanding how these two approaches work together. To effectively scope a group audit, the group engagement team needs to design a tailored scoping approach that uses an appropriate combination of both of these approaches based on the nature and circumstances of the group and the risks of material misstatement. ED-600 is lacking in a framework or thought process to follow to develop the most effective scoping strategy for the group audit.
In creating a framework for responding to risks of material misstatement to the group, we have the following specific considerations:

As noted in the discussion related to the risk assessment framework, clarity is needed in the foundation from which responses are designed – in relation to risks of material misstatement, and significant classes of transactions and account balances, at the group and component levels. The framework for responding to risks of material misstatement should start from this clarified foundation.

The component scoping options would benefit from expanded guidance to explain how the performance of centralized procedures, or commonality of controls, may affect the implementation of any option. As a simple example, if there is any extent of centralized procedures that affects a component, that would normally be expected to perform audit procedures on the entire financial information, the scope would need to be adapted to exclude those audit procedures performed centrally to avoid redundancy. Further examples and considerations related to the effect of commonality of controls and centralized activities would be very useful.

When there are numerous individual subsidiaries in a group that are not individually financially significant but may be financially significant to the group in the aggregate, there are specific challenges to determining the audit scoping strategy. We ask the IAASB to consider expanding guidance to clarify how a risk of material misstatement relevant to multiple business units or entities across the group may be addressed. Although paragraph A89 discusses this issue, further guidance would be useful for the group engagement team to determine the sufficiency of the procedures performed centrally, or by the component auditors.

In current practice, the assignment of review scope to components under extant ISA 600 typically helped the group engagement team to “top-up” the procedures performed on those components that were not individually significant. It may be difficult to isolate risks of material misstatement for these entities to justify assigning further audit procedures on a specific account balance that represent a small portion of the related group account balance. Guidance on whether substantive analytical procedures may provide sufficient appropriate evidence would also be helpful (also see our response to Question 12 related to Automated tools and techniques for further considerations).

We note that aggregation risk is currently not explained in the context of the risk-based approach (refer to Question 10), we recommend that the IAASB considers application material to better explain how aggregation risk may impact the scoping of the group audit, and the work assigned to the components. It would be helpful if Appendix 4 could be expanded to further explain the group engagement team’s scoping considerations related to the examples provided in order to adequately respond to related risks of material misstatement.

Paragraph 38 requires that when the group engagement team assigns the design and performance of audit procedures to component auditors, the group engagement team evaluates the appropriateness of these further procedures for areas of higher assessed risks of material misstatement, including significant risks. It would be helpful to clarify whether this evaluation is over the design of these further procedures or both the design and performance of these further procedures, including the level of granularity at which this evaluation should occur.

As noted in our response to Question 10, we also believe guidance is needed on applying the risk-based approach to equity investees.
GT

We find ED-600 unclear as to the role of the component auditor and of the group engagement team in the risk assessment process, as it relates to a specific component. We are of the view that there are two different and distinct roles for the component auditor in a group engagement. The first scenario is where the group engagement team takes responsibility for the risk assessment at the component level and accordingly for the proper execution of the audit procedures to be performed by the component auditor. The second scenario is where the component auditor performs an audit for statutory or other local purposes, in which case, the group engagement team would be responsible for the direction, supervision and review of the component auditor’s work in order to be able to use that work in support of the group audit opinion.

Further, the responsibilities of the group engagement team in relation to documentation and evidence that is expected to be retained in the group audit team’s engagement file where a component auditor is used to perform the risk assessment process is unclear. We recommend further clarification of the respective responsibilities that allow for flexibility in relation to the group engagement team’s involvement of the component auditor, which we believe is essential to a robust risk assessment.

We recommend that further guidance is provided in ED-600 on the circumstances and extent to which the component auditor may be used in performing risk assessment procedures in support of the group audit and how this may differ when the component auditor is from a different firm to the group engagement team and therefore subject to different firm policies and procedures. Also, guidance on how this involvement may differ in a number of circumstances is needed, including when:

The component auditor is from a firm that is not part of the group engagement team’s network;

The procedures to be performed at the component only comprise audits of specific financial statement line items or specified procedures; or

The group consists of sub-groups.

Absent such guidance, there may be less of an incentive for group engagement teams to involve component auditors, whether from the firm’s own network or not, or to reduce the extent to which they are involved without an appropriate reason for that reduction.

ED-600, paragraph 4 (supported by paragraph A7) indicates that the component auditor is involved in the group audit to ‘assist the group engagement team in identifying, assessing and responding to the risks of material misstatement of the group financial statements.’ We see this statement, in addition to the reduction of representations required from the component auditor and the incorporation of the component auditor into the engagement team, as a significant shift in the perceived responsibilities of the component auditor. In our view, this may infer that component auditors are able to relinquish responsibility for their work. We also view this as being problematic from a legal standpoint, especially in circumstances where the component auditor is not from the same network of firms as the group engagement team.

We also recommend that, if the intent of ED-600 is not to reduce the responsibilities of and assumed by the component auditor, the role and responsibilities of the component auditor are clarified to that effect in the final standard.

KPMG

However, we note that this revised approach may be considered by some to require a “top-down” and more “horizontal” view of the group audit overall, with very granular upfront involvement by the group engagement partner without necessary involvement of component auditors, which may be challenging in certain
circumstances. The ED itself recognises this, at paragraph A78, where it states that the group engagement team's process “may be challenging, particularly where the component’s business activities are complex or specialised, or when there are many components across multiple locations”. The contrasts with the current approach of initial “high-level” risk assessment by the group engagement team, with classification of components as significant or non-significant (by size or by risk area), with that classification being the mechanism to drive an appropriate and defined risk-based response.

We understand that changes in this area aim to align the requirements of the standard more closely with those of ISA 315 (Revised) and we are supportive of this intention. However, we do not consider it to be incompatible with ISA 315 to recognise more clearly the importance of the role of component auditors in identifying and assessing risks of material misstatement at the component level and therefore that there may often be a need to involve them, from an audit quality perspective. Such a “bottom up” and “vertical” approach is also critical in identifying and assessing risks, and in determining which components should be in or out of scope in respect of further audit procedures, especially given the “in the aggregate” concept of risks of material misstatement. It is therefore vital that component auditors have a more clearly defined role and responsibilities in this area, given the importance of their contribution to the group audit.

Please refer to our responses to Question 1a) and 1b), 2, and 8b) below, which include recommendations in this regard. These focus on clarifying and strengthening requirements and guidance in respect of the role of the component auditor, which we do not consider would detract in any way from the role and responsibilities of the group engagement team, but rather would better support them in fulfilling these responsibilities.

Role and Responsibilities of the Component Auditor

We support the changes in ED-600 and to proposed ISA 220 (Revised) which clarify and emphasise/enhance the role and responsibilities of the (group) engagement partner. We note that paragraph 21(a) of the ED now places significant emphasis on the group engagement partner’s responsibility for determining that component auditors have the appropriate competence and capabilities, including time, to perform the assigned audit procedures, and, at paragraph 20, for ensuring that component auditors are aware of, understand and will comply with ethical requirements that are relevant to the group audit engagement, including independence. We recommend that the IAASB provide guidance as to how the group engagement partner may make the above determinations or consider allowing assignment of aspects of the above requirements to other group engagement team members (including the component engagement partner, if applicable), whilst the group engagement partner retains overall responsibility, to arrive at a more appropriate balance of responsibilities in this area.

Paragraph 19 requires the group engagement team to request the component auditor to confirm that they will “cooperate” with the group engagement team, which we do not consider to be a robust or sufficiently clear requirement when now considered in light of the significant shift in responsibility towards the group engagement partner. We suggest that the material at A35 be elevated and included in the requirement at paragraph 19, and extended to request that component auditors formally acknowledge certain key aspects of their responsibilities. (Please refer to Question 1b) for further information). We do not believe that such enhancements would in any way detract from the responsibilities of the group engagement team and group engagement partner, but rather would help to clarify and strengthen the important role of the component auditor in the group audit as a whole, and therefore support audit quality.

MAZ

Considerations of the Component Auditor – Pars 18-22
We are challenged by 21(a) regarding the competence of the component auditor. While we believe that the type of analysis requested in Pars 18 and 19 should happen, the implementation as presented poses challenges. It is unclear to what extent the group engagement partner needs to go to fulfill this requirement. Use of the term “determine” in the par 20(a) appears to set a high bar that is not fully explained how to meet. Further guidance on the analysis expected could be provided in the application material.

Further, there could be many situations where the criteria in A42 and A43 are answered with negative responses. This could lead to a conclusion that there are "serious concerns" as presented in paragraph 22. While the term "serious" is not defined and could be open to significant interpretation, we would recommend that the guidance should allow for the possibility to implement safeguards to address the serious concerns. Should appropriate safeguards not be possible, we would agree with the proposal to not rely on work of the component. This approach would require a revision to first sentence of paragraph 22 as, it would now only apply to paragraphs 18-20. Lastly, additional guidance as to the definition of "serious" would be warranted. While an example is provided of a situation that may not be deemed serious, they do not provide any guidance of where the threshold to get to "serious" may be. We could see a scenario, for example, where for a banking client, the component auditor does not have past banking experience and thus is provided a manager resource from the central team as the safeguard, which may manage the risks / concerns. Lastly, these considerations may be better suited to being in the application guidance section of the standard.

MAZUSA

As it relates to the documented responsibilities, the guidance is clear and appropriate. However, as noted in our responses to other questions, we believe there are clarifications and further guidance that should be included in ED-600.

NEXIA

Yes, agree that the responsibilities are clear and appropriate.

The respective responsibilities of the group engagement team and component auditors appear to be clear and appropriate.

SOUTH AFRICA

United States 2

Clarification of component auditor’s responsibilities

- In this ED, group engagement team’s responsibilities are strongly emphasized and this might lead to a misunderstanding that responsibilities of component auditors have been reduced compared to the current ISA600.

- (ISAED600. A78) - In the process of identification and assessment of material misstatement in group financial statements, in addition to the description of group engagement team’s responsibilities, there should be a practical guidance which shows how a component auditor should identify and assess the risk based on their audit procedures.

- (ISAED600. 49) - A group engagement team required to evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. However, we are concerned if this is practically doable. It is not clear to what extent the group engagement team should obtain and evaluate the audit evidence.
SINGAPORE

(a) From the group engagement team perspective, the respective responsibilities of the group engagement team and component auditors seem clear, since the ED provides more guidance than the extant ISA 600. Having the component auditors’ involvement in the design and performance of responses to assessed risk could lead to better identification of risks and the responses to risks (since component auditors will inevitable, have better local knowledge and interactions with local/component management.

PwC

By casting component auditors in a “support” role, the proposed standard:

- diminishes the potential contributions to the group audit that component auditors can make,
- underplays the importance of their accountability for the work they perform to overall group audit quality, and
- undermines the collaborative relationship between the group and component auditors that group engagement leaders tell us is vital.

This could lead to confusion of roles and responsibilities and, consequently, potential inefficiencies or, more worryingly, lower audit quality.

Key recommendation 2: We recommend the standard set out factors to help guide group engagement teams in their scoping decisions regarding the components at which audit work needs to be performed, and considering whether, where, and to what extent to involve component auditors in performing risk assessment procedures, identifying and assessing risks, and the design and performance of further audit procedures.

To achieve this, we recommend that the standard includes an overarching new requirement based on ISA 300 paragraph 7, addressing the special considerations in developing the overall group audit strategy that sets the scope, timing and direction of the group audit. To support this requirement, we recommend the application material set out factors to help guide group engagement teams in their scoping decisions.

Many of our group engagement partners welcomed a number of the proposed changes in the ED as reflecting current best practice for audits of groups that are well controlled and managed centrally – which lend themselves best to a group engagement team-led approach to risk assessment. However, experienced group engagement partners observed that a group team-led top-down risk assessment is more difficult to apply effectively in audits of large, diverse conglomerates or entities in which management has no formalised accountability framework (e.g., component management certification to group management). The engagement partners recognised that the most effective approach to the design of the group audit is dependent upon the characteristics of the group and its financial reporting structure.

For some, therefore, approaching the audit by focussing in the first instance on the classes of transactions, account balances and disclosures that are significant to the group financial statements (SCOTABD) works well. For others, a continued focus on significant components first may remain the best approach (e.g., when there are specific or unique risks associated with a location or business unit). In practice, we anticipate the processes to scope a group audit, understand potential risks of material misstatement to the group financial statements, and design of appropriate responses to those risks will be iterative, rather than linear.

We believe it is important that the proposed standard provides more guidance on the factors that should be considered by the group engagement team in determining the most effective approach to the group audit, including the nature and extent of involvement of component auditors in risk assessment and responding to identified risks. Guidance should also address both the circumstances when a full-scope audit may be
warranted, and those in which more targeted audit procedures may be appropriate. This is an important element linked to our principles 1 and 4.

Our response to question 8 in the appendix provides further details.

Key recommendation 3: We propose the standard recognise more fully the important role component auditors play.

We agree that a group engagement team needs to take overall responsibility for the judgements described above. However, our engagement partners highlighted some critical dependencies to making a top-down approach successful, including effective two-way communication between the group engagement team and component auditors. This reflects the important role that component auditors play in performing assigned audit work at components. More than just performing requested procedures, component auditors can provide valuable insights that inform the understanding of the entity and risk assessment for the group audit.

Component auditors have an in-depth understanding of the specifics of the component entity, its business practices, local culture and laws and regulations, and, where performed, insight from local statutory audits. Particularly in circumstances when the group’s financial reporting structure is not centralised, or when the group operates in multiple jurisdictions, component auditor input to the design and performance of risk assessment procedures at the component level to identify potential risks of material misstatement at the group financial statement level can be important. They may also be best placed to design audit responses to address those risks that will be effective in the specific circumstances of the component.

As the complexity of a group, its decentralisation, or the diversity of the jurisdictions in which the group operates increase, the importance to audit quality of appropriate involvement of component auditors also increases. The nature of such involvement in many circumstances is, in our view, more than the component auditor being asked to “assist” the group engagement team in performing audit procedures. In such circumstances, component auditors may need to play a leading role in ensuring there is a sufficient understanding of those component entities and the potential sources of material misstatement to the group financial statements that may exist in that component.

We recommend avoiding language in the standard that implies that component auditors simply perform procedures to “assist” the group engagement team, as such wording underplays the role that is often played and the professional judgement and professional scepticism component auditors need to bring to bear in the work performed at components. Further emphasis is also warranted within the standard on the importance of effective ongoing two-way collaboration with component auditors in the identification and assessment of risks of material misstatement and design of appropriate responses in relation to particular components. Our responses in the appendix provide further details, including recognising the relevant insights that can be obtained when statutory audits of components take place.

Please see our comments in respect of ISA 220 in response to question 1 with regard to the respective responsibilities of the group engagement team and component auditors.

Role of component auditors

We support the appropriate involvement of the group engagement team in understanding the group as a basis for being able to identify and assess the risks of material misstatement of the group financial statements. The group team needs to have a sufficient understanding of the group and its environment, including the group’s financial reporting structure and internal control, to take overall responsibility for the determination of the classes of transactions, account balances and disclosures that are significant to the group financial statements. In obtaining that understanding, effective collaboration with component auditors
is often important in ensuring a robust, informed and complete assessment of the risks of material misstatement of the group financial statements.

Component auditors have an in-depth understanding of the specifics of the component entity, its business practices, local culture and laws and regulations, and, where performed, insight from local statutory audits. Particularly in circumstances when the group’s financial reporting structure is not centralised, or when the group operates in multiple jurisdictions, component auditor input to the design and performance of risk assessment procedures at the component level to identify potential risks of material misstatement at the group financial statement level can be important. They may also be best placed to design audit responses to address those risks that will be effective in the specific circumstances of the component.

As the complexity of a group, its decentralisation, or the diversity of the jurisdictions in which the group operates increase, the importance to audit quality of appropriate involvement of component auditors also increases. The nature of such involvement in many circumstances is, in our view, more than the component auditor being asked to “assist” the group engagement team in performing audit procedures. In such circumstances, component auditors may need to play a leading role in ensuring there is a sufficient understanding of those component entities and the potential sources of material misstatement to the group financial statements that may exist in that component.

We have found in practice that proactive and robust two-way dialogue with component auditors who have performed statutory audits has positive impacts to quality for both the group audit and the statutory audits of components. Where such statutory audits are required, they can be a source of valuable risk assessment information.

In conjunction with our other recommendations described above, we propose that the standard recognise more fully the important role component auditors play. For example, we recommend avoiding language that implies that component auditors simply perform procedures to “assist” the group engagement team, as such wording underplays the role that is often played and the professional judgement and professional scepticism component auditors need to bring to bear in the work performed at components.

We believe further emphasis should be given in the application material to paragraphs 25, 32 and 37 on the importance of effective ongoing two-way collaboration with component auditors in the identification and assessment of risks of material misstatement and design of appropriate responses, including the importance of leveraging the in-depth knowledge and insight of the component auditors in certain circumstances.

We note also that we believe the requirement that the group engagement team “considers” the results of risk assessment procedures performed by component auditors to similarly lack a strong enough message of the importance of the component auditor’s role in informing the group engagement team’s risk assessment. The group engagement team needs to take into account such information and react accordingly.

RSM

Yes, we believe the respective responsibilities of the group engagement team and component auditors are generally clear. However, it would be useful to provide further clarity in paragraph 21 about how or what the group auditor would need to obtain or document to comply with the assessment of whether the component auditor has ‘sufficient time.’

With respect to paragraph 22, further clarification on the definition of a “serious concern”, other than independence issues which cannot be overcome, would be helpful. We note the application guidance in paragraph A48 regarding concerns that are not considered serious, but we would value additional guidance on other situations where the concern is considered serious.
The links to ISQMs and ISA 220 (Revised) provide appropriate clarity regarding the group engagement team's responsibilities and its involvement in the work of component auditors.

We particularly welcome the enhancements to Extant ISA 600, which place an increased focus on the group engagement team's responsibility for obtaining an understanding of the group and its environment in order to better identify, assess and respond to the risks of material misstatement.

6. Public Sector Organizations

AGA

Overall the responsibilities of the group engagement team are clear, however as previously noted they are not always practical, specifically with larger (multiple component) engagements. Unless the purpose of including the component auditor as “part of the engagement team” is that the “group engagement team” requirements are sufficiently met when either the component auditor or the group auditor complete the requirements. By ED-600 including the component auditor as part of the group engagement team, the group engagement team meets these requirements through the work of the component auditor who is part of the group engagement team. Is this the IAASBs intention?

Another concern is how the “group engagement team shall take responsibilities for the nature, timing and extent of further audit procedures” (ED-600.33). Application guidance A86 - A90 is not clear when a component includes significant risk(s). In order to meet the current requirement and application guidance, I would expect the group engagement team would need to review the component audit working papers. This is another example that may not be practical with larger engagements that include multiple, sometimes 100’s of components. In these situations, it is common that the group auditor relies on an independent auditor’s report issued on the components financial statements. I encourage the IAASB to continue to permit this approach and update ED-600 accordingly.

AGO

We agree the risk-based approach is appropriate. However, we noted that the guidance clearly lays out the group engagement team's responsibilities but does not explicitly state the component auditor's responsibilities to provide a timely and accurate response. See our introductory comments.

7. Member Bodies and Other Professional Organizations

CAANZ-ACCA

We support the concept that the risk assessment should be driving the work effort for the group audit building from the risk-based approach introduced in 315 (Revised) rather than the extant ISA 600 concept referring to the significance of components. However, there are significant concerns raised by SMPs that since the risk assessment will be performed by the group engagement team without the involvement of component auditors, this could impair audit quality as the involvement of component auditors often brings local knowledge and expertise.

CPAA

We understand that the group engagement team bears ultimate responsibility for the audit. However, we believe audit quality will be enhanced by the involvement of component auditors as an integral part of the engagement team. It is critical that the component auditor's role is acknowledged, valued and that their
unique contribution, though their understanding of the component, is recognised to foster enhanced quality of the overall audit.

With regards to the appropriate assessment of the risks of material misstatement in a group audit, ED-600 makes clear that the group engagement team has to have a thorough understanding of the inherent risks and internal controls of the business. We believe that in larger and complex group audits this can become especially challenging. We are concerned that insufficient involvement of component auditors may lead to incomplete and/or inaccurate risk assessments by the group engagement team. By not requiring component auditors to undertake full-scope audits of “significant components”, as defined in the extant standard, this may lead to component auditors not being able to adopt a holistic audit approach to a component. For complex audits with many components, it will be particularly challenging for the group engagement team to be able to identify all of the risks arising from the group’s components and operations.

In CPA Australia’s outreach to its members, views were expressed that component auditors performing the entire audit, are likely to take full responsibility and ownership of the audit. In other words, they may feel more accountable if conducting the audit in full. Nevertheless, we do not suggest that the ED should revert to group engagement teams always requiring entire audits of components. Instead, we believe that the ED should provide the means by which the benefits of the component auditor’s knowledge of the component may be best leveraged and their commitment to the group audit outcome best be achieved.

Therefore, we recommend the IAASB give more consideration to the involvement of component auditors in assessing risks of material misstatement, when considered appropriate, by the group engagement team as recommended in answer to question 3; as well as encouraging two-way communication so that they are an integral part of the audit team.

CPAI

We would welcome more involvement by the component auditor in the assessment of risks. There may be benefits to be gained for more involvement in risk assessment by the component auditor, which ultimately should improve audit quality.

ECA

Yes, except for the issue about classification of services/engagements of component auditors (see additional comments).

EFAA

We believe the respective responsibilities of the group engagement team and component auditors are clear. We are, however, concerned about the potential exclusion of component auditors and the adverse implications this might have for audit quality.

Specifically, we are concerned about the absence of guidance, in the shape of application material or requirements, to ensure component auditors are used in group audit circumstances in order to reinforce audit quality. While the application material in ED-600 concentrates on the difficulties for the group engagement partner and GET of using component auditors, the fact that component auditors from outside the firm or network cannot be subject to the same incentives as those within the firm of the group engagement partner is not addressed. We fear that component auditors may be prejudiced when engagement teams for group audits are being established.
FAR

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

IBRACON

As already said in question 2, the inclusion of the sub-sections when component auditors are involved helped to understand the respective responsibilities. However, especially in adopting the risk-based approach of ISA 315 (Revised) for ED-600, and considering there is a possibility of some of the risk assessment procedures being identified by component auditors, it is not clear the role of the component auditors and their respective responsibilities in identifying, responding and reporting Risks of Material Misstatements (RMMs) to the group auditor.

In addition and as noted in response to item 8.c below, the heavy focus on a top-down risk approach brings additional challenges to the application of ED-600 in comparison with the extant since the responsibilities of component auditors seem to have been lessened while the group engagement team responsibilities appear to have been enhanced, which could lead to an unintended consequence of more centralized work, which is not always be the best option to bring quality to the audits.

As a result, we suggest that the application material expand on the current content, regarding the component auditor’s knowledge and experience, to clearly explain the reasons as to why it may be ideal, from an audit quality perspective, to perform an audit over component financial information in certain scenarios and why, in such circumstances, it may create a risk to audit quality when a component auditor is not appropriately involved.

ICAEW

Our outreach suggests that ED-600 is likely to make the audit process, particularly in relation to the risk assessment, more extensive for many audits but there was less agreement on the extent to which this might improve audit quality outcomes. Respondents to our enquiries also questioned whether the approach in ED-600, coupled with the lack of guidance on when, and the extent to which, the group engagement team should involve component auditors, might encourage group engagement teams to reduce or eliminate the involvement of component auditors. Some have concerns that ED-600’s top-down approach and the identification of components using the auditor view might increase the risk of less work being done without appropriate justification for that reduction. This has potential implications for audit quality. While the expectation would be that group engagement teams would continue to do all that is needed, including full scope audits where necessary, excessive fee pressure by group management might lead to instances where this might not be the case.

There are concerns that the revised definition of component, a focus on account balances, transactions and disclosures across the group, as opposed to ‘significant components’, and a change in approach to using component auditors, could lead to risks being missed in the risk assessment, for example in relation to related parties, fraud and non-compliance with laws and regulations at a local level – or local risks identified but not appropriately assessed. This is less likely to be the case under the extant standard as it forces a minimum level of local risk assessment that isn’t required under the ED proposals.

It would be helpful if additional guidance could be included in the application material which highlighted the types of circumstances where it is likely that the group engagement team would need to involve component
auditors on the group audit and to emphasise that the group engagement team must ensure that their risk assessment is based on sufficient local knowledge.

IPA

The following issues are challenges to the proposed risk-based approach:

Over reliance on centralised controls and processes by the auditor, resulting in reduced or no audit procedures carried out the component level particularly when there are significant non-centralised systems and processes e.g. sales, inventory control etc.

While the ED adequately addressed the respective roles the group engagement team and component auditors, the revised ISA 600 should clearly articulate the nature and content of instructions from the group engagement team.

ISCA

Responsibilities of GET and component auditors

We believe that the recognition of the need to involve component auditors to identify and assess risks of material misstatement at the component level is consistent with the principles of ISA 315 (Revised). While we support the concept of involving the component auditors at this phase of the audit, this needs to be balanced with an independent assessment by the GET as there may be conflict of interest on the component auditor's part to have reduced involvement. This is particularly important in situations where the component auditors may be performing the procedures only for the purpose of group reporting and are not signing off on the standalone financial statements of the component or where group reporting requires additional work on top of their statutory audit.

In this regard, we believe that the emphasis on the GET’s responsibilities throughout the ED, such as under paragraphs 31 and 33, are sufficiently clear.

However, we are concerned that the revised approach to risk identification and assessment, which requires the group auditor to take a “top-down” and more “horizontal” view of the group audit overall, with very granular upfront involvement, is likely to be challenging. Below are our views on some of the practical challenges.

KICPA

The responsibility of the group engagement team is specified and clear, but in case component auditors don't perform their work appropriately, it is not clear who is responsible for. Then, the excessive workloads and responsibilities are likely to mostly go to the group engagement team in the following cases: ① when component auditors don’t perform their works appropriately, assigned from the group audit plan; ② component auditors overlook frauds committed by the management; and ③ there is a restricted access to documentation prepared by component auditors.

MICPA

We believe the interactions and collaboration between the group engagement team and component auditors throughout the different phases of the group audit is crucial for identifying, assessing and responding to the risks of material misstatements and for audit quality purposes.
With reference to Paragraph 52 of the proposed ISA 600 (Revised), whilst it is important that the group engagement team remains responsible for the identification, assessment and responses to the risks of material misstatement of the group financial statements, we are of the view that this can be quite challenging in the larger and more complex group audit engagements. This is because for an effective scoping of the risks, there has to be a thorough and complete understanding of the business and operations of the components including full familiarity of the local risks and regulatory environment.

Consequently, obtaining the appropriate inputs from the component auditors is crucial. However, we are concerned that the role and sense of ownership of component auditors may have been diminished as explained. Additional clarifications should be included to the effect that notwithstanding the group engagement team’s planned approach for the group audit, this should not preclude component auditors from applying the necessary professional judgments including use of experts at component level for the separate component financial reporting purposes.

NRF

Also, we have some concerns that ED-600, to some extent, reflects an imbalance between the advantages of using component auditors and the supervision activities related to such use, especially if component auditors are from outside the firm of the GET or that firm’s network. There is a risk that the number and content of requirements and application material dealing with the supervision of components auditors might lead to a reluctance to include component auditors in the group audit. Therefore, we would encourage the IAASB to consider emphasizing the benefits of using component auditors in order to get sufficient local knowledge when planning the group audit, especially in terms of understanding the entity and its operating environment.

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NYSSCPA

The ED and its application material clarify responsibilities of the group and component auditor(s) and provides for enhanced communication and interaction on a timely basis. The quality of the work is significantly enhanced when the knowledge base about the client and its business and environment is shared, especially in regard to risk.

The component auditor may have more direct knowledge about risks affecting the component, including legal, operational, governance, taxes and industry risks and current economic and other changes. This is especially true during the global pandemic. The component auditor(s) should not feel insulated, so the proposed standard is clear that such matters must be shared with the group auditor who needs this information with regard to all significant components, and needs to approach the group financial statements with this knowledge in hand, to assure proper risk assessments and responses with respect to the consolidated financial statements.
SMPAG

The standard is generally clear as to the respective responsibilities and clearly portrays the “add-ons” for the GET where component auditors are involved, but – as explained elsewhere – we are concerned about the potential for the exclusion of component auditors.

Whilst we note that ED-600 deals with the situation where a group engagement partner may be forced not to use component auditors (para. 22), we remain concerned that there are no requirements (or helpful guidance material) to ensure component auditors are used in group audit circumstances where – so as not to potentially compromise audit quality – it would be necessary to do so. The focus of application material seems more on difficulties for the group engagement partner and GET that using component auditors may bring (para. A48 – A52). The fact that component auditors from outside the firm or in some cases network cannot be subjected to the same incentives and disincentives as those within the same firm as the group engagement partner is, however, not addressed. From our perspective this is a further reason why some previous component auditors may face “discrimination” when the composition of engagement teams for group audits are being planned.

SRO AAS

Exposure Draft of the ISA 600 places significant emphasis on the centralised performance of work by the group engagement team and sole responsibilities of the group engagement partner. Although the group engagement team partner is solely responsible, Draft-600 appears to view the approach of involving component auditors to do the work as less desirable than having the group engagement team perform the work in a centralised way. Based on the review of the proposed standard discussion, it can be concluded that the IAASB did not intend to propose this interpretation. However, Draft 600 does not contain any clear wording on how the group engagement team should perform procedures at a more detailed level, since it is not possible to apply the appropriate approach to larger groups. Accordingly, in practice, the above situation could lead to different interpretations of whether the entity may use this approach. Therefore, it is necessary to take a more balanced approach to this issue and provide explanations on the importance and, most often, the need to involve component auditors under the risk-based approach.

The standard should include separate clauses that address issues related to the involvement of component auditors, as this would highlight the need to engage component auditors at various stages of the audit.

Q8(a) – Disagree

4. National Auditing Standard Setters

IDW

Based on our general response to Question 8 above, we believe that the respective responsibilities of the group engagement team and component auditor are not clear, and we do not believe them to be appropriate.

As noted in our general response to Question 8 above, ISA 220 (Revised) and the draft collectively leave group engagement teams in the dark as to how their direction, supervision, and review of component auditors needs to be qualitatively different for component auditors from a firm or network different from that of the component auditors from the same firm. Consequently, the responsibilities of group engagement teams are not clear in this respect.
Furthermore, based on the noted response, we believe that the respective responsibilities are particularly inappropriate for components that are financially significant and components that are not financially significant, but whose financial information has a reasonable possibility of containing a significant risk. On the basis of that response, we also believe that the draft will inappropriately mislead group engagement teams in other situations to seek to perform risk assessment procedures, identify and assess the risks of material misstatement, design further audit procedures, and perform these, for component financial information in situations where the group engagement team does not have the competence to do so, but may not be aware of its lack of competence in this regard.

KSW

It has implications for the extent of involvement of component auditors and there is a risk that some risks of material misstatement will be missed. The involvement of component auditors in the risk assessment process is vital as component auditors might be aware of local risks which are not known by the group engagement team. It would be helpful to emphasize the need for sufficient local knowledge that may be needed to better understand the entity and its operating environment and to avoid the risk that component auditors may focus on the assigned work rather than identifying and assessing risks at the component level.

MIA

Application of ISA 220

While we acknowledge the concept in proposed ISA 220 that the group engagement partner “shall take responsibility” for certain matters and can assign tasks, actions or procedures to others, we remain concerned about the practical operability of proposed ISA 220 when applied to large/complex group audit engagements. The emphasis on the overall role of the GET for audit quality in a group audit may have diluted the sense of ownership by component auditors for the judgments and decisions made. There may be unintended consequences on professional skepticism and professional judgement including fraud risk.

Please refer to our comments in question 1 in respect of ISA 220 with regards to the respective responsibilities of the group engagement team and component auditors.

6. Public Sector Organizations

AGC

No, the respective responsibilities of the group engagement team and component auditors are not clear. The definition of component auditor in paragraph 9(c) provides that a component auditor is a part of the engagement team. However, the definition of a group audit engagement team in paragraph 9 (j) does not include the component auditors. It’s only when reading paragraph A13 that the reader understands that the standard uses two aggregations of the engagement team. There is the group engagement team (the core team) and there is the engagement team which include the core team and others. The wording used throughout the standard may impact its consistent application because the wording is too similar. We believe the standard could be improved if it used more precise vocabulary such has “core team” or “extended group engagement team”

7. Member Bodies and Other Professional Organizations

WPK

No, we disagree: see in particular sections 1-4, 6, 7 and 9 above.
Q8(a) – No Comment

2. Investors and Analysts
CRUF
No Comment

3. Regulators and Audit Oversight Authorities
MAOB
No Comment

NASBA
No comment

4. National Auditing Standard Setters
NZAuASB
No comment

5. Accounting Firms
DTT
No comment

MGN
No comment

6. Public Sector Organizations
GAO
No comment

7. Member Bodies and Other Professional Organizations
AE
No comment

CAQ
No Comment

8. Academics
AFAANZ
No comment
Graham
No Comment

LI
No Comment

9. Individuals and Others

PITT
No Comment