ED-600 Question 8(b) – Are the Interactions Between the GET and CA Clear and Appropriate

**Question 8:**

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?

In particular, the IAASB is interested in views about:

(a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?

(b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?

(c) What practical challenges may arise in implementing the risk-based approach?

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(b) – Agree**

2. Investors and Analysts

CRUF

We support the ED which emphasises the need for adequate communication within the engagement team, as well as two-way communication with the component auditors, the group management, those charged with governance, the component management and those charged with governance in the component.

3. Regulators and Audit Oversight Authorities

NASBA

NASBA believes ED-600 clearly and appropriately describes the expected interactions between the group engagement team and component auditors.

4. National Auditing Standard Setters

AICPA

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

AUASB

The AUASB considers that the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.
JICPA
We believe that the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

We believe that the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

5. Accounting Firms

CG
The approach of ED-600 to the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate. Appendix 1 includes helpful additional guidance relating to the involvement of component auditors in the group audit. Overall, the more integrated approach is welcome, and we anticipate that it will improve the quality of the group audit as well as practical efficiency.

CR
The interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

MNP
Yes, the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team.

NEXIA
Yes, agree that interactions are clearly set out, including involvement of group engagement team.

The interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

SOUTH AFRICA
(b) The clarification in terminology relating to responsibilities relating to group engagement partner, group engagement team and component team are very useful in addressing what was previously a big area of ambiguity.

United States 2

SINGAPORE

PKF
The interactions or expected interactions between the group engagement team and the component audits throughout the different phases of the group audit are clear and appropriate.

6. Public Sector Organizations

AGC
Yes, the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team. ISA 600 (Revised) includes sub-sections throughout the standard that describes the requirements that apply when component auditors are involved. These separate sub-sections helps to clarify the interactions that are needed between the group engagement team and the component auditors throughout the different phases of the group audit.

**AGSA**

The interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate and the is sufficient involvement of the group engagement partner and group engagement team.

**PAS**

Yes, the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

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

**BICA**

We believe ED-600 clearly and appropriately describes the expected interactions between the group engagement team and component auditors.

**CPAI**

We also welcome the approach and the enhanced application material included to strengthen the communication between component auditors and the group engagement team.

**ECA**

Yes

**EFAA**

We believe the interactions are clear.

However, as previously explained, we are concerned at the risk of the GET ingo elect not to involve component auditors, especially when their involvement would have been appropriate.

**IMCP**

Yes

**INCP**

Answer: Yes, ED-600 mentions, in the communication process, the involvement in the relevant phases of the audit, so that the group’s auditor is provided with all elements to perform their engagement and conclude.

**8. Academics**
HUNTER
We believe that the ED-600 is clear and appropriate for the interactions between the group engagement team and component auditors.

9. Individuals and Others

VERA
Yes

Q8(b) – Agree with comments

1. Monitoring Group

BCBS
The Committee supports the enhanced application material relating to the two-way communication between the group engagement team and the component auditor. In addition, the Committee agrees with the new requirement (paragraph 44(e)) that component auditors should report the description of any identified deficiencies at the component (the extant ISA 600 requires significant deficiencies only to be reported).

Additional drafting suggestions or matters of clarity:

ED-600 paragraphs 32 and A82 to A84: it would be useful to clarify in the application material that where the group engagement team determines that the component auditor’s work is not an appropriate basis, the group engagement team undertakes further work to make the assessment.

It would be helpful to clarify in the application material that when the component auditors are from an audit firm that is not part of the group engagement team network, the component auditor may not be familiar with the policies and procedures of the group engagement team. The group engagement team may therefore need to give particular attention to communicating the audit strategy (and transmit information and audit instructions) to respond to assessed risks, to ensure the component auditor understands what is expected of them.

ED-600 paragraph A106: to support effective two-way communication, we would recommend adding to application material that the group audit strategy also be communicated. This would further help set the expectations for the component auditor by enabling them to understand where they fit within the overall audit.

ED-600 paragraph A112: it may be helpful to add new application material to clarify that a component auditor that is also appointed as the statutory auditor for a component, should also consider whether any Key Audit Matters raised as part of the statutory audit should be reported to the group engagement team. This could perhaps be given as a specific example of ‘any other matters’ described in paragraph 44(g).

IFIAR
To reinforce the two-way communication between the GET and CA and the GET’s direction and supervision of CAs, we encourage the IAASB to add the following items to the requirements listed in paragraph 44:

A 116 states that a group engagement partner’s (GEP) evaluation may consider whether misstatements communicated by CAs indicate a systematic issue. This should be a requirement for the GET to request the CA to communicate identified and corrected misstatements in addition to uncorrected misstatements. This may assist the GET in performing the ‘stand-back’ requirement, including understanding whether there are
pervasive issues in the group, which could indicate similar uncorrected misstatements in other components or controls that are not operating effectively that could impact initial risk assessments.

There is no explicit requirement for the CA to communicate matters and/or accounts balances where the CA made significant judgments that are different from those communicated by the GET to the CA, including the nature of those judgements made by the CA. This should be included as a required communication by the CA to the GET as it may assist the GET in its application of ISA 701 Communicating key audit matters in the independent auditor's report at the group level.

IOSCO

Communications from Component Auditors and the Use of Opinions, Including in Letterbox Audits Situations

While we understand that in practice the auditor generally provides a deliverable based on the nature of the engagement, we believe the current construct of paragraph 44 (h) of the Paper may be confusing with respect to whether all three deliverables (findings, conclusions and opinions) are required to be provided by the component auditor for one engagement.

Paragraph 44 (h) states that: “The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include:

(h) The component auditor's overall findings, conclusions or opinion.”

We believe practice issues have arisen, in part, as a result of the standard allowing component auditors to provide findings, conclusions or opinions without defining these terms. What does it mean for an auditor to provide each of these, and when is the use of each appropriate? The Board should review and provide guidance in the Application Material on how the terms “findings”, “conclusions”, as well as “opinions” or the memos used to communicate these outputs, are meant to be applied based upon the type of engagement the group auditor directs the component auditor to perform, and also clarify which of the related deliverables expected of the component auditor.

Additionally, we are concerned where the component auditor only provides an “opinion” or a memo on their work to the group engagement partner. We believe this could encourage the group engagement partner to place undue reliance upon such an opinion or memo for purposes of the group audit without obtaining sufficient appropriate audit evidence regarding the financial information and other typical areas of audit findings (e.g., function of internal controls, passed financial statement adjustments, and potential auditor independence issues) of the components and having performed appropriate review of the component auditor's workpapers.

In addition, the use of an opinion by the component auditor seems inconsistent with (1) the fact that the component auditor is a member of the group engagement team and (2) the general intent of the Paper that portrays the work of the component auditor as a collection of specified procedures. We believe the component auditor should provide a report of its findings or the results of applying procedures. These reports or results could then be used by the group engagement partner (along with audit evidence from all the other audit work performed) to develop an opinion on the group financial statements as a whole.

We believe the Board should further consider what the impact is on audit quality if a component auditor only provides opinions to the group engagement team consistent with paragraph 44(h) of the Paper. For example, with respect to opinions, as highlighted in our concerns above, the group engagement team
should not consider an “opinion” to be the only audit evidence that eliminates the need for the group engagement team to be sufficiently involved with the work of the component auditor and to obtain sufficient appropriate audit evidence regarding the financial information of the components. We believe the Board should consider whether or not receipt of an opinion may give rise to unintended consequences with respect to the component and group auditor. If opinions are retained in the Paper, then it should be emphasized in the requirements that the group auditor cannot rely on the opinion provided by the component auditor as the sole form of audit evidence over that component. Where an opinion is the only form of communication due to documentation restrictions, please refer to our comments under the section entitled “Documentation and Access Restrictions” above.

Relatedly, we are of the view that the Paper does not fully convey or discuss in sufficient detail the unique challenges that can exist where the engagement partner is not located in the jurisdiction where the majority of the audit work is performed (referred to by some as audits of letterbox companies). We believe the Paper should clearly state whether it covers letterbox audits or not, and if it does, how this guidance applies to the group auditor.

3. Regulators and Audit Oversight Authorities

CEAOB

Establishing clear and sufficiently detailed instructions for the component auditors is fundamental for the planning and performance of the group audit as it will be the basis for the direction of the component auditors by the group engagement team throughout the audit engagement. Therefore, we are of the view that ED 600 (e.g. paragraph 43) should specifically request written instructions.

Paragraph 44 includes a list of items that the group engagement team is required to request the component auditor to communicate. Other topics to report to the group engagement team could be areas of significant judgement made by the management of the component. For example, the assumptions made by the management of the component in a scenario analysis or application of discount rates that are at the lower or upper end of the range stipulated by the group. Similarly, provisions for litigation/law suits that are within reasonably expected outcomes at component level, might be assessed differently by the group engagement team.

We further suggest including the following matters in the requests for communication detailed in paragraph 44:

Details and results of risk assessment procedures of the component auditors on the risks of the component that are relevant at the group financial statements level (beyond what is referred to in paragraph 25 of ED 600)

Details and results of the component auditors’ work where the component auditor is involved in the identification and assessment of the risks of material misstatement of the group financial statements referred to in paragraph 32

Communication referred to in paragraph 37 between the group engagement team and the component auditor of matters that are relevant to the design of responses to the assessed risks of material misstatement

Communication on the detail of the further audit procedures (and of the related findings and conclusions) referred to in paragraph 38 that are designed and/or performed by the component auditors on areas of
higher assessed risk of material misstatement of the group financial statement, including significant risks and areas that involve significant judgment

Via reference to the matters in paragraph 44 of ED 600, instances of non-compliance with laws or regulations are covered. However, paragraph 44 only refers to the component’s compliance, and also it is unclear what the threshold is for non-compliance matters that are to be documented by the group auditor. We encourage the IAASB to add further detail regarding the scope and the threshold.

Paragraph 28 (b) refers to communication by the group engagement team to all component auditors of any events or conditions that may cast significant doubt on the “group entity’s” ability to continue as a going concern reported by a component auditor. Paragraph 41 (b) is understood as a request by the group engagement team to the component auditor to report any events or conditions that may cast significant doubt on the group entity’s ability to continue as a going concern. However, usage of the phrase “group entity” in these paragraphs requires further clarification as it is unclear if the term refers to the component(s) for which the component auditor is responsible or the overall group.

**CPAB**

Communication

To reinforce two-way communication between the group engagement team and component auditors and the group engagement team’s direction and supervision of component auditors, we encourage the IAASB to add the following items to the requirements listed in paragraph 44 of ED-600:

A 116 states that a group engagement partner may consider whether misstatements communicated by component auditors indicate a systematic issue. There should also be a requirement for the group engagement team to request for the component auditor to communicate adjusted items. This may assist the group engagement team to perform the ‘stand-back’ requirement, including understanding whether there are any pervasive issues in the group which could indicate similar uncorrected misstatements in other components or controls that are not operating effectively that could impact initial risk assessments.

There is no explicit requirement for the component auditor to communicate matters and/or accounts balances where the component auditor made different significant judgments from those communicated by the group engagement team to the component auditors, including the nature of those judgements made by the component auditor. This should be included as a required communication by the component auditor to the group engagement team as it will assist the group engagement team in its application of ISA 701 Communicating key audit matters in the independent auditor’s report at the group level, where applicable.

**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.
Oversight and supervision

We agree that strong communication and interaction between the group auditor and the component auditor is of utmost importance, and we support the proposed amendments that strengthen this feature of the standard. We think the standard should include greater requirements for the group engagement team to demonstrate and document the extent of oversight of the component auditor, and how the group engagement team concluded that the extent of procedures performed by the component were sufficient.

IAASA

Two-Way Communication Between the Group Engagement Team and the Component Auditor

Setting clear and sufficiently detailed instructions for the component auditors is fundamental for the planning and performance of the group audit as it will be the basis for the direction of the component auditors by the group engagement team throughout the audit engagement. Therefore, we are of the view that ED 600 (e.g. paragraph 43) should specifically require written instructions.

Paragraph 44 includes a list of items that the group engagement team is required to request the component auditor to communicate. Other topics to report to the group engagement team could be areas of significant judgement made by the management of the component. For example, the assumptions made by the management of the component in a scenario analysis or application of discount rates that are at the lower or upper end of the range stipulated by the group. Similarly, provisions for litigation/law suits that are within reasonably expected outcomes at component level, might be assessed differently by the group engagement team.

We also suggest including the following matters in the requests for communication detailed in paragraph 44:

Details and results of the component auditors’ risk assessment procedures on the risks of the component that are relevant at the group financial statements level (beyond what is referred to in paragraph 25 of ED 600);

Details and results of the component auditors’ work where the component auditor is involved in the identification and assessment of the risks of material misstatement of the group financial statements referred to in paragraph 32;

Communication referred to in paragraph 37 between the group engagement team and the component auditor of matters that are relevant to the design of responses to the assessed risks of material misstatement; and

Communication on the detail of the further audit procedures (and of the related findings and conclusions) referred to in paragraph 38 that are designed and/or performed by the component auditors on areas of higher assessed risk of material misstatement of the group financial statements, including significant risks and areas that involve significant judgment.

Through reference to the matters in paragraph 44 of ED 600, instances of non-compliance with laws or regulations are covered. However, paragraph 44 only refers to the component’s compliance, and also it is unclear what the threshold is for non-compliance matters that are to be documented by the group auditor. We encourage the IAASB to add further detail regarding the scope and the threshold.

Paragraph 28(b) refers to communication by the group engagement team to all component auditors of any events or conditions that may cast significant doubt on the “group entity’s” ability to continue as a going concern reported by a component auditor. Paragraph 41(b) is understood as a request by the group
engagement team to the component auditor to report any events or conditions that may cast significant doubt on the group entity’s ability to continue as a going concern. However, the phrase “group entity” in these paragraphs requires further clarification as it is unclear if the term refers to the component(s) for which the component auditor is responsible or the overall group.

**IRBA**

We believe that the interactions between the group engagement team and the component auditors, throughout the different phases of the group audit, are clear and appropriate, including the sufficient involvement of the group engagement partner and the group engagement team.

Given its importance, we suggest that paragraph 31 of ED-600 should include the group engagement team’s responsibility for communicating risks of material misstatement where component auditors are going to be involved.

We also suggest that the IAASB considers placing paragraphs 37 to 41 of ED-600 after paragraph 33 because these paragraphs are in respect of responding to the assessed risks of material misstatement, as opposed to the consolidation process that is covered in paragraphs 34 to 36.

We submit that paragraphs 28(b) and 41(b) of ED-600 are the same. As such, the IAASB should consider consolidating them into one requirement where the component auditor communicates to the group engagement team any events or conditions that may cast significant doubt on the group entity’s ability to continue as a going concern. We, therefore, recommend that paragraph 28(b) be deleted and paragraph 41(b) be retained.

**MAOB**

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

**UKFRC**

Interactions and underlying principles of good communication

Expanding the application material at ED-600.A106-110, to include material on the fundamental principles of good communication. We have included some examples in Appendix 2, intended to address concerns expressed by some stakeholders.

<table>
<thead>
<tr>
<th>A106-A110</th>
<th>In respect to our response to Question [X], we offer the following principles of good communications for the IAASB’s consideration.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Clarity in Ideas</strong> – The principle that key ideas should be clear, with the key aims of any communication being obvious to the intended user. Any communications should include clear indication of why work is being completed in a given area, and how that fits with the overall objective.</td>
</tr>
<tr>
<td></td>
<td><strong>Appropriate Language</strong> – Good communications consider the audience. The use of highly technical language may, for example, be more appropriate when communicating with CAs than with those charged with governance.</td>
</tr>
</tbody>
</table>
• **Consistency** – On-going communications are often more effective if they are made in a consistent format with the use of similar language, contributing to an overall picture of good communications.

• **Expectations** – Expectations should be laid out effectively at the beginning of a relationship, and any changes in what is expected of either party should be communicated in a timely and effective manner.

• **Responsibility** – All parties should be aware of their respective responsibilities, and the importance of fulfilling them, to the overall objective.

---

**A107**

In respect to our response to Question 12, we suggest the following amendments:

**Effective Two-Way Communication** (Ref: Para. 43)

A107. Factors that may also contribute to effective two-way communication include:

- A mutual understanding of relevant issues and the expected actions arising from the communication process.

- The manner in which communications will be made. For example, it may be better to discuss certain matters in person or by telephone or videoconference rather than by exchanging emails…

---

**Example:** Factors that may contribute to an auditor determining that communications in person or visiting the location of a component(s) are appropriate

- The risks of material misstatement of the group financial statements associated with the component or where the information obtained from risk assessment procedures and related activities indicate that one or more fraud risk factors are present at the component;

- A recent change in CAs or component management or significant changes in the scale or type of local activities;

- The component is a recently acquired entity or disposal of that entity is anticipated;

- There are restrictions on access to people or information at the component

---

4. National Auditing Standard Setters

**CAASB**

While we support the proposed interactions between the GET and CA throughout the group audit, we have concerns regarding paragraph 42. We also suggest an enhancement to application paragraph A116.

Comprehensively address how a group engagement team may use audit evidence from audits performed for another purpose

Our most substantive concern with ED-600 is related to paragraph 42. We believe paragraph 42 does not fully address the complex issues involved in determining when it may be appropriate to use audit evidence from an audit performed for another purpose, particularly statutory audits, and how a GET may involve a
Group Audits: NVivo Report – Question 8(b)
IAASB Main Agenda (December 2020)

statutory auditor in the group audit. Paragraph 42 appears to be limited to the circumstance when a GET plans to use audit evidence from an audit that has been performed (i.e. completed). We suggest that application material be included to discuss the implications when the group, and other audit are performed concurrently. The audit evidence obtained from a statutory audit can be critical to a group audit, and so there needs to be more discussion of when it may be appropriate to use such audit evidence and how the GET may use this audit evidence in responding to risks of material misstatement in the group financial statements. Some stakeholders are particularly concerned that paragraph 42 may result in the GET placing undue reliance on the audit evidence obtained from a statutory audit.

We believe that the standard needs to address the key principles more comprehensively for the use of audit evidence from an audit performed for another purpose. Some of the key factors that may impact the GET’s determination of whether sufficient appropriate evidence can be obtained from such audits include:

- The expected level of cooperation from the other auditor; for example, whether the other auditor is responsive to communications from the GET or whether the other auditor agrees to be engaged in the role of a component auditor;
- Whether the other audit, such as a statutory audit, is completed or underway, which would impact the ability of the GET to direct or be involved in the audit;
- The ability of the GET to hold discussions with the other auditor and the ability, when necessary, to review the other auditor’s audit working papers or obtain a summary memo regarding the audit procedures performed;
- The ability of the GET to assess the competence and capabilities of the other auditor, and their compliance with relevant ethical requirements, including those related to independence; and
- How the risks identified for the component impact the use of the audit evidence from the other audit.

We urge the IAASB to explore these issues and add the key principles to ED-600.

Evaluating the further audit procedures required in relation to an audit conducted for another purpose (when the other auditor is not a component auditor)

In paragraph 42(a), the GET is required to evaluate that the audit procedures performed in the other audit are an appropriate response to the assessed risks of material misstatement of the group financial statements. This requirement and the related application material do not describe how the GET evaluates the audit procedures performed in the other audit. In some group audits, the GET may have limited access and contact with the other auditor (e.g., when the statutory auditor is not a component auditor). Clarity is required about the nature and extent of work the GET needs to undertake for the purposes of evaluating whether the audit procedures are an appropriate response to the assessed risks of material misstatement of the group financial statements, for example: whether the GET needs to review the audit file of the other auditor, or whether the audit report for the other audit can be viewed as audit evidence.

Enhance application paragraph A116

Paragraph 50 requires the GET to evaluate the effect on the group audit opinion of any uncorrected misstatements, and paragraph A116 indicates that this may be done by considering whether misstatements communicated by CAs indicate a systemic issue that may affect other components. The application material in paragraph A116 could be enhanced, by indicating that the GET may also request that the CA communicate details for corrected misstatements. The nature of corrected misstatements and the circumstances of their occurrence at one component may indicate that misstatements exist in other
components or may indicate a pervasive issue in the group. We believe that this action enhances the application of professional skepticism by the GET.

CNCC-CSOEC

Concerning the point b of the question, i.e. whether the Interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, we consider that it would be useful to propose concrete examples of Interactions between the group engagement team and a component auditor, in particular a non-related auditor.

Concerning the point b of the question, i.e. Whether the Interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, we consider that it would be useful to propose concrete examples of Interactions between the group engagement team and a component auditor, in particular a non-related auditor.

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.

MIA

However, the AASB believes further guidance could be provided to clarify regarding circumstances when the use of audit evidence from an audit performed for another purpose will be appropriate. As examples, paragraphs A34 and A35 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 GET, to confirm that there will be access provided to component auditor documentation, etc).

The proposed approach may compromise audit quality as the GET may not identify and assess the risks of material misstatement at the component level, especially for those components with higher assessed risks of material misstatement that could result in risks of material misstatement at the group financial statement level, and may not be able to design appropriate responses to address those risks. As such, the IAASB could consider expanding paragraph A82 to reflect that component auditors should proactively relay potential risks of material misstatements to the GET.

Further, paragraph 42 states that the engagement team may use audit evidence from statutory audits of components if the GET is satisfied that the work is appropriate for the GET’s purposes. The paragraph may undermine the group engagement partner’s responsibility and accountability for the identification and assessment of risks of material misstatement, and design of further audit procedures and evaluation of the sufficiency of audit evidence obtained.

Involvement of component auditors in risk assessment

We believe a stronger requirement for the GET to determine the need to involve component auditors in performing risk assessment procedures at the component level is necessary to underpin audit quality. Application material that reinforces the importance of two-way communication and effective collaboration between the GET and component auditors would ensure that the knowledge and insight into those
component entities and the potential sources of risk are fully understood. In addition, we recommend guidance on factors to consider or a framework in determining the extent of involvement of component auditors. We have further elaborated in questions 5 and 8 on this matter.

The AASB believes that greater collaboration with component auditors at all stages of a group audit is needed in identifying, assessing and responding to the risks of material misstatement. For example, paragraph A110 could be expanded to note the importance of timely response and communication by the component auditor.

While it is important to indicate the importance of the GET’s accountability for an appropriate assessment of the risks of material misstatement on a group audit, for the GET to be effectively scoping the risks, it has to have a thorough and complete understanding of the business including inherent risks, major processes and internal controls. This can be challenging in the larger and more complex group audits.

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 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.

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

As we note in answer to 8a, the structural approach adopted by the IAASB in drafting ED-600 is helpful. This should enable both group engagement teams and component auditors to have greater clarity about the extent of their interactions. Having these requirements included within each section is also useful as it helps to highlight interactions that may be required at each stage of the engagement. This may encourage additional interaction throughout the audit on the part of both group and component auditors.

We also support Appendix 1 which provides helpful information to group engagement teams to think through the nature and type of involvement they may require from component auditors. The range of scenarios makes it clear that group engagement teams have to flex their approach to using component auditors based on the needs of the group audit.
We agree with the emphasis the IAASB has placed on the importance of two-way communication – we see this as being core to group engagement teams being able to lead, manage and achieve quality within the group audit. The positioning of the two-way communication set of requirements midway through the requirements (i.e., after acceptance, risk assessment and responses to risk) could potentially result in this set of interactions being considered ‘after the event’. As communication and interaction is important to all stages of the audit, we would recommend moving this section to immediately follow on the ‘engagement performance’ section to send a stronger message about its relative importance.

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.

DTT

Paragraph 42

DTTL believes that paragraph 42 of ED-600 may be misconstrued in terms of when it is applicable in the context of a group audit engagement. The specific cross-reference to paragraphs 20-22 of ED-600 may imply that in order to use the audit evidence the group engagement team need only comply with these requirements; it is unclear which “other relevant requirements” (as stated in paragraph 42(c)) would also be applicable. Additionally, as currently drafted, DTTL believes that the lack of a framework for determining when use of evidence from an audit that has already been performed is unclear (e.g., in an extreme circumstance, a group engagement team could simply postpone issuance of an audit report until all the statutory audits of a group were completed, and then apply paragraph 42 of ED-600 to obtain audit evidence for the group audit). DTTL recommends that the paragraph be clarified to provide a framework for when it is appropriate to use this paragraph.

With respect to the risk-based approach, DTTL does have observations and recommendations that may further clarify the intent of certain paragraphs in the proposed standard, as follows.

Paragraph 28

DTTL believes that paragraph 28(b) of ED-600 is unclear, and could be interpreted that the group engagement team is communicating back to the component auditor events or conditions that may cast significant doubt on the group’s ability to continue as a going concern, that have previously been identified by the component auditor. DTTL recommends clarifying that the communication is from the component auditor to the group engagement team. Additionally, DTTL recommends referencing paragraph 10 of ISA 570 (Revised), Going Concern, to enhance the linkage that communicating such information is relevant for risk assessment.

28. In applying ISA 570 (Revised)16, the group engagement team shall:

(a) Communicate with component auditors ...

(b) Request Communicate with component auditors to communicate any events or conditions identified by the component auditor that may cast significant doubt on the group entity’s ability to continue as a going concern.
Footnote 16: ISA 570 (Revised), Going Concern, paragraph 10

ETY

(b) 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

In addition to the concerns expressed in our response to parts (a) and (c) to Question 8 that have implications for interactions between the group engagement and component auditors, we have the following observations specific to the requirements and application material that address two-way communication between the group engagement team and component auditors.

Paragraph 43 – Communications with component auditors

ED-600 paragraph A108 states: “The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed”. This seems to imply that a single memorandum could satisfy the requirement in paragraph 43 for communication to occur at the appropriate point in time, which in practice goes against the principle that the group engagement team is involved in the component auditor's work throughout the group audit and likely more communication than a single memorandum will be required.

Paragraph 44 – Matters communicated by component auditors to group engagement team

ED-600 paragraph 44 focuses on communications made by the component auditors at the conclusion stage of the audit. We recommend that ED-600 clarify that some communications are expected to be made by the component auditors to the group engagement team on a timely basis during the audit, such as:

Information on instances of non-compliance with laws or regulations (paragraph 44 (b))

Indicators of possible management bias (paragraph 44 (d))

Non-compliance with independence and other ethical requirements

Not previously identified or new significant risks of material misstatement, including risks of fraud, identified at the component and the component auditor’s response to such risks

Access restrictions to people or information imposed by component management

Access restrictions to people or information that were not identified during the client acceptance and continuance process and that impacts the component auditor’s planned procedures

Unusual material events and significant unusual transactions

ED-600 paragraph 44(f) discusses matters that the component auditor communicated or expects to communicate to those charged with governance of the component. It may be helpful to clarify under the Communication with group management and those charged with governance of the group section, how these requirements apply for the component auditors.

We strongly support the requirement in paragraph 44(h); the conclusion from the component auditor is an important mechanism that serves as formal acknowledgement of the responsibility of the component auditor.
for the quality of their work. This mechanism is even more important when working with a component auditor from firms outside of the group engagement team's network. We however wanted to share with the IAASB an important observation from our field testing activities. Several teams questioned whether interoffice conclusions would still exist under ED-600. These teams felt that the iterative nature of the standard and increased responsibilities of the group engagement team made those conclusions from the component auditor less relevant. This serves as another example of the potential unforeseen consequence of ED-600. We do however believe that this concern will be resolved by addressing the recommendations made in our response to Question 8 (a) and (c).

Paragraph 45(b) - Review of component auditor’s documentation

While appropriate in principle, we are concerned that paragraphs 45(b) and A113 of ED-600 leave room for many different interpretations of the extent to which it is necessary for the group engagement team to review parts of the component auditor’s audit documentation. This is an area where regulators today have different local interpretations, and the extent of the review expected may largely differ by jurisdiction, or even by group audit. Paragraph A113 would benefit from further enhancement and examples that would assist in facilitating greater consistency in application when determining the nature, timing and extent of the review. It would also help to include factors to consider when making this judgment and narrow the review to ordinarily include areas of higher assessed risks of material misstatement unless specific concerns exist. Finally, A113 (a) refers to the "identification and assessment of those risks". Should this also include the evaluation of the design of the further audit procedures?

Paragraph 45(c) - Adequacy of component auditor’s communications

ED-600 paragraph 45(c) states that the group engagement team evaluates whether the communications with component auditors are adequate for the group engagement team’s purpose. It would be helpful if this requirement could clarify whether these communications are those in paragraph 44, or more generally, all communications.

GT

We are of the view that the following clarifications in relation to the interactions of the group engagement team and the component auditors are necessary:

Direction of the component auditor – when the component auditor is performing risk assessment procedures in support of the group audit engagement, further guidance would be helpful on how the group engagement team fulfils the requirement to direct the component auditor, especially when that component auditor is from a firm that is not part of the group engagement team’s network and may employ different methodologies or risk ratings.

Communication of matters related to the financial information of components – further guidance would be helpful on the types of matters that would be expected to be communicated as part of satisfying this requirement.

Communications regarding the group’s ability to continue as a going concern – further clarification of the difference in communication required by parts (a) and (b) of this requirement would be helpful. We believe that part (a) would be communications from the group engagement team to the component auditor of the matters of which the group engagement team is aware and that part (b) is communication by the component auditors to the group engagement team of the matters of which the component auditor is aware.
Engagement documentation – further guidance is needed on the level of documentation that is required to be included in the group engagement team’s engagement documentation as it pertains to the component auditor’s work. This includes guidance in relation to:

The review of the component auditor’s work performed by the group engagement team;

The retention of the actual working papers of the component auditors; and

The review and retention of component auditor working papers when the audit is performed for a purpose other than that of the group audit.

KPMG

As we note above, we are supportive of the introduction of the new “risk-based approach” in the ED, which we consider will help drive greater focus by the group engagement team on their responsibility to identify and assess the risks of material misstatement of the group financial statements and to design and perform further audit procedures to respond to those risks, in order to obtain sufficient appropriate audit evidence in respect of the group as a whole.

However, in terms of the interactions between the group engagement team and component auditors, we are concerned that the standard does not make direct reference to the responsibilities of the component auditors and that it does not address the special considerations associated with being part of the “group engagement team”.

It is very important that component auditors, as part of the group engagement team, have a clear understanding of the important role they play in a group audit and the responsibilities they have as a result of being members of the group engagement team. We are concerned that component auditors from a network that is different from the group engagement team’s network, in particular, may not necessarily understand the implications, especially given the de-emphasis of an audit of component financial information in the ED.

To avoid differing interpretations in practice, we believe it is important for the standard to include requirements that address the special considerations for component auditors who are part of the group engagement team. Please refer also to our response to Question 1b) and 2) for our recommendations to address this concern.

De-Emphasis of an Audit of Component Financial Information as a Response

We recognise that the ED continues to contemplate the involvement of component auditors both by emphasising that they are part of the engagement team and by including commentary in the application material regarding their “more in-depth knowledge of the component” (A96), and “their direct knowledge and experience with the entities or business units” (A79).

However, when considering the requirements and related application material as a whole, there is relatively little direction as to the audit procedures that group engagement teams, or component auditors on their behalf, would perform as the most appropriate response to the risks identified. We are concerned, in particular, that an audit of component financial information as an appropriate response to assist the group team in meeting their responsibilities appears to be somewhat de-emphasised in the revised standard, addressed only later in the application material, or in respect of using an audit already performed over a component for statutory or other purposes, within the standard itself.
Firstly, as drafted, some may interpret that the standard no longer appears to clearly contemplate an “end to end audit” (described as such) of component financial information, which recognises the iterative and interconnected nature of risk identification procedures and audit procedures that respond to those risks, throughout the entire audit, by the component auditor. Instead, the standard describes their involvement as a response to risk assessment in the form of audit procedures assigned by the group engagement team (on the entire financial information of the component). Such procedures may appear to be somewhat disconnected from the risk assessment procedures, at the component level itself, such that responses may be understood by some to be more similar to “specified audit procedures”.

Furthermore, even when the proposed standard seems to refer to an “audit”, it appears in places to avoid the use of this term, instead referring to it being more effective to obtain evidence over “the entire financial information of the component”, but without further elaboration, or, at paragraph 42, in respect of using an audit already performed over a component for statutory or other purposes, within the standard itself.

We acknowledge the Board’s observations, as described in paragraph 48 of the Explanatory Memorandum (EM), that the extant standard may result in the group engagement team “defaulting” to an audit of the component financial information and concerns regarding possible “over-reliance” by the group engagement team on such an audit. Accordingly, we recognise the Board’s intention, in the revised standard, to drive the group engagement team to focus on whether and how the assessed risks of material misstatement of the group financial statements are properly identified and addressed and to avoid “blind reliance” on the work of the component auditor.

However, we have concerns regarding the resulting de-emphasis of an audit of component financial information as we believe that an audit is often an optimal solution from an audit quality perspective. This is because the component auditor performs an audit, which is a clearly defined and understood engagement type and which is required to be performed in compliance with all other ISAs, as relevant. It provides a robust framework for a component auditor’s responsibilities with respect to the work to be performed on a component at the direction of the group engagement team, including communication with the group engagement team. These features do not diminish the responsibilities of the group engagement team. Instead, they help to ensure that the component auditor is clear as to their remit and takes appropriate responsibility for their involvement, which is critical in view of the underlying reasons for their involvement. This rationale is recognised in the ED itself, and includes the component auditor’s greater understanding of the local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/practices, which may be especially important when the component is in a jurisdiction that is considered to be “higher risk”, because, for example, it involves a rapidly changing regulatory and business environment, and is subject to heightened fraud risks.

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 appropriate, from an audit quality perspective, to perform an audit over component financial information in certain scenarios and why, in such circumstances, it may pose a risk to audit quality when a component auditor is not appropriately involved.

When to involve a component auditor

The revised standard permits the group engagement team to involve a component auditor during the audit, including in risk assessment procedures. (For example, A71 sets out factors that may influence the group engagement team’s decision as to whether to involve component auditors, including number, location and
complexity of components. Furthermore, the application material also acknowledges the benefits of using a component auditor, e.g. A96 states that “component auditors may have a more in-depth knowledge of the components”.

However, we consider that the revised standard could place greater emphasis on the benefits of involving a component auditor, from an audit quality perspective.

Accordingly, we recommend that the standard provide further clarity as to when it would be appropriate/optimal to involve a component auditor, including greater acknowledgement that using the work of a component auditor may result in a more effective approach to identifying and assessing risks and to obtaining sufficient appropriate audit evidence. We suggest that the standard could go further in terms of discussing the importance of the component auditor role, from an audit quality perspective, building on the material already included, e.g. at paragraphs A79 and A96, which goes some way towards describing their contribution. This would be an enhancement over the extant standard, which is focused only on whether a group engagement team may use the work of a component auditor.

To reinforce the importance of the component auditor role, we suggest the establishment of a requirement for the group engagement team to determine whether to involve a component auditor at paragraph 21, building on any preliminary determinations at paragraph 13), as part of considering whether the group engagement team overall (including component auditors) has the appropriate competence and capabilities to perform the group audit. We recommend that related application material also be further enhanced, setting out relevant considerations in making this determination, including matters specific to the component jurisdiction, such as understanding the local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/practices. This may be particularly pertinent in jurisdictions that are considered to be “higher risk”.

How to involve a component auditor

As we note above, there is relatively little direction as to the procedures that group engagement teams, or component auditors on their behalf, would perform as the most appropriate response to the risks identified.

This is in significant contrast to the extant standard, which prescribes clearly defined responses (an audit, an audit of an account balance, class of transactions, or disclosure, specified audit procedures and/or review of the component financial information) according to a component’s classification as significant by size, significant due to risk, or non-significant.

Whilst we recognise the IAASB’s rationale for removing the binary classification of components as significant or non-significant and the resultant prescriptive responses, we recommend that the standard describe within the application material the different ways to involve a component auditor in terms of the nature, timing and extent of their involvement in performing procedures and, furthermore, that the standard provide a framework, including factors that the group engagement team would consider in making the determination as to how to involve a component auditor.

In order to formalise such considerations and give appropriate prominence to their importance, we also suggest the establishment of a requirement for the group engagement team to determine how to involve a component auditor, linked to this guidance. Furthermore, we suggest that the Board consider whether to extend such a requirement to explicitly include consideration as to whether it would be appropriate to request a component auditor to perform an audit of the component financial information, or a part thereof, as we describe above.

Iterative Nature of Involvement of Component Auditors
The application material, in describing the work that may be performed over component financial information, including by a component auditor when requested to do so by the group engagement team, appears, in places, to “divide” this into risk assessment procedures, including developing an initial expectation, and performing further audit procedures, assigned by the group engagement team, in response to those risks (e.g. paragraph A97). This may be interpreted by some as a preference for involvement of component auditors in a way that is more similar in nature to specified audit procedures, especially given the apparent de-emphasis of an audit of component financial information.

The overarching intention and focus of the standard is on a dynamic and iterative approach to such involvement, as further information is obtained during the course of the audit, which we support. However, the performance of procedures in this highly iterative way would likely involve multiple issuance/ updating of component auditor instructions which, as we note in our response to part a) of this question, may be challenging to operationalise, in practice, especially for larger/ more complex groups or when a component auditor is from another network.

We recommend, above, that the standard be enhanced to provide a clearer framework to group engagement teams regarding when and how to involve component auditors, building on the material currently included. Accordingly, we suggest that such a framework include matters such as the number of components, the locations of these and whether these are in “higher risk” jurisdictions, as factors to consider when determining whether to assign procedures to/ request assistance from component auditors in identifying and assessing risks, and in designing and performing further audit procedures in response to those risks.

Two-Way Communication

The proposed standard emphasises the importance of two-way communication between group and component auditors throughout the audit, e.g. at paragraph 43 in terms of the audit as a whole, and elsewhere in relation to specific aspects of the involvement. However, since this is a group audit standard, requirements are worded in respect of the group engagement team rather than the component auditor. Whilst we do not disagree with this approach, and we note that this is the approach taken in the extant standard, we recommend that certain requirements be strengthened in respect of expectations of the component auditor, to complement these paragraphs. For example, we suggest in our response to Question 2 that paragraph 19 be strengthened to emphasise the importance of the role of the component auditor, and to require them to acknowledge their role and responsibilities more formally. We also suggest the introduction of similar requirements for the group engagement team to request that the component auditor consider whether procedures assigned to the component auditor are appropriate/ complete, recognising that such procedures are performed for group engagement team purposes.

We also suggest that there be greater emphasis on the importance of communication from the group engagement team to the component auditor when the component auditor is using the work of the group engagement team e.g. when the group engagement team is performing procedures over “group wide controls” that the component auditor will use for purposes of reporting to the group engagement team. Additionally, it would be helpful for the standard to highlight the importance of communication by the group engagement team in respect of matters such as going concern assessment, when this is performed by the group engagement team for the group as a whole, or when certain procedures are coordinated by the group engagement team for the group as a whole, but will be relevant for an audit of the financial information of the component that is performed for statutory purposes.
We also consider the changes proposed regarding the definition of a group and component to be helpful, as these clarify the applicability of the standard to reflect the wide range of group structures that exist, as well as the introduction of material to drive the application of professional scepticism throughout the group audit. We also welcome the enhancements to reinforce the need for clear and regular communication between group and component auditors.

**MAZ**

We believe that the responsibilities of the component auditors should be more clearly presented in the main body of the standards to be clear that they are part of the engagement team.

The standard primarily promulgates a top-down approach. However, the group engagement team may not be able to identify certain risks that can only be identified locally, especially risks relating to tax issues or going concern or even fraud issues. For example, if there is a problem on local market with potential impact on the going concern of the group, the group may not be aware of it. We believe that in order to properly manage risk and improve audit quality, the component auditors need to be more actively involved in many engagements, and the proposed standard should emphasize such involvement.

**MAZUSA**

We believe that the responsibilities of the component auditors should be more clearly presented in ED-600 to indicate that they are part of the engagement team and responsible for assisting with planning and risk assessment activities. See our earlier recommendation to collect all sub-sections and related application material for “Considerations When Component Auditors Are Involved” into one appendix.

ED-600 primarily promotes a top-down approach during the planning phase of the group audit, whereby the group engagement team assigns planning responsibilities to the component, when deemed appropriate. As proposed, ED-600 could lead to the group engagement team not identifying certain risks that, due to relative materiality to the component, would likely be identified at the component level, especially risks relating to income tax issues, going concern or even fraud. We believe that in order to most effectively plan the audit and manage risk, thus improving audit quality, the component auditors should be required to be more actively involved in the planning phase of the audit through two-way communication.

**MGN**

The material on the importance of communications between group engagement team and component auditors is helpful but we believe that the potential shift in responsibilities between the group engagement team and component auditors – in particular around risk assessment – may mean the quality and utility of communication is actually reduced. We would welcome specific guidance regarding communication directed at component auditors.

**PwC**

Other audits (paragraph 42)

We believe that paragraph 42 and its associated application material may be viewed as directly undermining the intended objectives of the revised requirements for the group engagement team to take responsibility for the identification and assessment of risks, and the design of further audit procedures. As drafted, this appears to allow a group engagement team to use the statutory audits of components as providing the
evidence needed over that component’s financial information without the involvement in the risk assessment and design of responses that the changes were designed to achieve.

We agree that there will be certain circumstances where use of such audit work is a necessity, such as large conglomerates where there may be hundreds of (what today are described as) non-significant components, or equity method investees where the group engagement team cannot “direct” the component auditor. When, after appropriate risk assessment procedures, a determination has been made that the risks of material misstatement of the group financial statements are low in relation to such entities or business units, it may be appropriate to use evidence from such statutory audits as providing additional evidence, where this provides additional coverage and helps address aggregation risk. Such an approach would not seem appropriate for entities or business units where there are higher assessed risks of material misstatement of the group financial statements (or “significant components” as defined in extant ISA 600).

We also note that, with increasing mandatory firm rotation in many jurisdictions, the statutory auditor of a component may not be from the same network as the group auditor. The ability to obtain access to audit evidence from those statutory audits may therefore be restricted and/or the evidence obtained insufficient due to differences in policies and procedures and methodologies of the respective firms. These factors will therefore impact the ability of the group engagement team to make use of the statutory auditors’ work.

We believe paragraph 42 and related application material need to be revisited to make clear the circumstances when the use of such evidence is considered appropriate, and to ensure the intent of this paragraph is aligned with the stated public interest objectives.

RSM

Yes, we welcome the paragraphs which set out the interactions between the group engagement team and the component auditor.

Two-way communication will increase in importance under ED-600 and we welcome paragraphs 4 and 43-46 and Appendix 1 which provide clarity regarding these interactions. However, we believe guidance on component auditors’ reporting to the group auditor on the component financial information would help determine whether such reports are expected to comply with ISA 700, 705, and 706 or whether other formats of reporting are appropriate.

As noted in our response to Question 1a above, we support the addition in paragraph 28 to clarify the interaction between the group and component auditors related to going concern considerations. However, we believe an editorial change is needed to paragraph 28 (b) because the group engagement team cannot be directed to communicate to the component auditor information identified by the component auditor. We suggest a change such as the following addition included in bold font:

28. In applying ISA 570 (Revised), the group engagement team shall:

(a) no change proposed

(b) Communicate with component auditors regarding any events or conditions identified by the component auditor that may cast doubt on the group entity’s ability to continue as a going concern.

6. Public Sector Organizations

AGA

See response to 8(a) above.
AGM

Requirements are clear, but the application material could be specified.

AGO

More needs to be done to ensure there is effective two-way communication between the group auditor and the component auditor. While the guidance in ISA 600 clearly identifies the group auditor’s responsibility to communicate effectively and on a timely basis, there is no explicit requirement for the component auditor to provide a timely, accurate and complete response. Delays or inaccuracies in the component auditor response can undermine the group audit process. This is not in the public interest, nor is it in the best interest of the accounting profession as a whole. Nor is it feasible to place the entire responsibility for two-way communication on one party. We encourage the IAASB to explore solutions that will address this deficiency and strengthen the overall audit process.

The IAASB should consider other instances where two-way communication between accountants is addressed. For example, the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) clearly addresses the responsibility of the predecessor accountant to respond to the inquiry of the successor accountant:

R320.7 When an existing or predecessor accountant is asked to respond to a communication from a proposed accountant, the existing or predecessor accountant shall:

(a) Comply with relevant laws and regulations governing the request; and

(b) Provide any information honestly and unambiguously.

GAO

We believe that a practical challenge may be with the two-way communication between the group auditor and the component auditor. However, we are concerned that there may be instances where the group auditor does not assign the design and performance of risk assessment procedures to a component auditor, but the component auditor nonetheless is aware of risks that may impact the group audit. We believe this can be addressed by providing an additional example in 44 (g) or an additional sub-sentence in paragraph 44 that discusses communication of risks to the group auditor. In addition, we suggest clarifying whether paragraph 44 is referring to all the component auditors or just the component auditors involved by the group auditor in the audit.

7. Member Bodies and Other Professional Organizations

CalCPA

We suggest additional guidance for circumstances that change due to reasons beyond the group auditor’s control.

CPAA

We generally agree, however, see our comments in (a) and (c) and our answer to question 3 regarding further communications; that is, the group engagement team communicating assessed risks to component auditors, even if they have not been engaged in the risk assessment procedures.
IBRACON

The two-way communication was highlighted throughout the standard and we agree with the enhancements done in application material. Our concern is the level of documentation required as set out in question 11, which can lead to a significant increase of work to be performed by the group auditor. We also believe that additional guidance should be included regarding review of component auditor’s documentation, especially since this review may be significantly impacted by local regulations and interpretations, depending on the location of the component auditor.

ICAEW

ED-600 emphasises the importance of two-way communications between the group engagement team and component auditors which is helpful but it is focused on the group engagement team requesting information from or communicating instructions to component auditors, rather than encouraging a two-way information flow. Also, given the lack of clarity around the extent to which the group engagement team might need to involve component auditors, this might result in poorer quality communications.

When local statutory auditors have reduced involvement with the audit of the group financial statements because the group engagement team have taken a more centralised risk-based approach, there is a risk of duplicated or overlapping work with local statutory audits which may put pressure on the relationship between component management and local statutory auditors.

While we are pleased to see greater emphasis on the importance of two-way communication between the group engagement team and component auditors in ED-600, this is still largely focused on the group engagement team communicating instructions or requesting information from component auditors rather than a two-way flow of information and, given the concerns expressed above about the impact of the risk based approach on the nature and extent of component auditor involvement in group audits, there is inevitably a concern too that the quality and usefulness of these communications may deteriorate, at the expense of the quality of both the group and component audits.

ICAS

We believe that the interactions between the group engagement team and component auditors throughout the different phases of the group audit, including sufficient involvement of the group engagement partner and group engagement team are clear and appropriate.

As is currently the case, where there are component auditors involved in the group audit, the challenge will be in ensuring effective two-way communication. Where such communication channels are not effective this could have a negative effect on audit quality.
ICPAS

In response to 8. (b), we believe considerations to take place at client acceptance could be enhanced, in particular discussions around potential issues that should be identified at client acceptance and guidance for what type of communication between the group auditor and the component auditors should take place at this point (Explanatory Memorandum Section 2-E Acceptance and Continuance; ED 600 – Requirements – Acceptance and Continuance #13).

IIA

There are practical limits on how much work one human can supervise at any given time. Consideration about timing (e.g., staggering engagements) might add value.

IPA

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. The IAASB should update and reinstate the existing ISA 600 Appendix 5 Required and Additional Matters Included in the Group Engagement Team’s Letter of Instruction.

The application guidance at A113 relating to the review of component auditor’s work papers is insufficient as it lacks specificity.

In addition, as noted in our response to Question 1, the group engagement team should provide the component auditor a copy of the overall group audit strategy.

Communication between the Group Engagement Team and Component Auditors – the new guidance in the revised ISA 600 is in certain aspects (particularly component auditor instructions) inferior and not as useful as that in the extant ISA 600. The IAASB should re-examine this material for revision and incorporation into the revised ISA 600. The current guidance in relation to when a review of component audit work papers is required and the extent of such a review lack specificity.

ISCA

Two-way communication

The proposed standard emphasises the importance of two-way communication between GETs and component auditors throughout the audit, for example, under paragraph 43, in terms of the audit as a whole, and elsewhere in relation to specific aspects of their involvement. We recommend that expectations over communication by the component auditors be strengthened to complement these paragraphs.

KICPA

We believe the proposed ED provides clarity about the interactions between the group engagement team and component auditors throughout the different phases of the group audit, but lacks clarity as to when the interactions must be done. Sure, the timing of the interactions could be decided, based on the professional judgments of the group engagement team. However, there might be a limit in the interaction, in case other accounting firms are used as component auditors or an entity is big-sized and complex. This means that the lack of clarified requirements could invite the following cases: ① the interaction could be done just once as a courtesy form, thereby creating a concern over audit quality; and ② communications could be frequently made at the occurrence of the event, thereby significantly increasing work burdens. It would be great helpful for the Board to provide examples and explanations about to which extent and in which area the group
auditor should engage in audit procedures, taken by component auditors specifically at the respective phase of audit procedures, which would be beneficial for the effective and useful interactions.

**NYSSCPA**

The proposed communication elements are clear, appropriate, and flexible, without being overly burdensome. However, there are practical problems group auditors may need to address with component auditors such as delays in critical communication which can lead to an inappropriate response, no response, or a truncated response.

Other problems include the client’s involvement not being obtained when that is important, when knowledge by the component auditors of the issue is insufficient, or the requisite responsibility for responding resides with the wrong personnel. In many instances the inquiry itself may generate a whole host of other issues. Some of these matters should be addressed by the firms’ QM systems and the management of certain elements of an audit in ISQC-1 and the ED on ISA 220. We also believe that additional guidance should be included in the standard on audit evidence currently being revised. A case study or studies included in an education program on communication also would be a good vehicle.

An issue arises, albeit rarely, when communication cannot resolve a difference of opinion between auditors. A resolution of the matter acceptable to all parties is generally required, but if the component auditors' position is intractable and that view is adequately documented in the file, the group auditor can take responsibility for the resolution without further action. In such cases, the client should be advised at a senior management or governance level if deemed necessary.

**SAICA**

The interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.

ED-600 emphasises the importance of dialogue between the group engagement team and the component auditor through two-way communication.

Another item for consideration in paragraph 44 may include:

Key Audit Matters (KAM) from the audit of the components that component auditors believe that the group engagement team should consider including in the group audit report.

The application paragraphs should also give examples of the nature of the reports that the component auditor could submit to the group engagement team. For example, ISA 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, contains various illustrative reports that could serve as guidance on the nature of the report to be submitted to the group engagement team by component auditors, especially in situations where they are auditing specific elements, accounts or items included in the component’s financial statements. Illustrative reports that can serve as guidance to group auditors on the nature of reports that may be submitted by component auditors for various group scenarios could be included in the appendix section.

**SMPAG**

We agree that that the GET and group engagement partner respectively must be sufficiently involved in the group audit and that the group engagement partner must take responsibility for the engagement overall. However, as discussed elsewhere, we are concerned at the potential for a GET to elect for the non-
involvement of component auditors, especially in cases where the involvement of the component auditors would have been warranted.

SRO AAS

Draft 600 does not stipulate that the component auditor should reach conclusions based on the audit procedures performed, but only to send a message to the group auditor related to uncorrected misstatements above a certain threshold for which the component auditor performed further audit procedures. In addition, the absence of any materiality level for components in Draft 600 could lead to situations when the component auditor is unable to conclude that it has achieved reasonable assurance that all material misstatements in the financial information have been identified. This could result in reducing the level of responsibility of the component auditor.

Establishing sustainable two-way communication and information sharing with component auditors during the audit is essential, as these are key elements in assuring audit quality. Therefore, it is also relevant to provide appropriate explanations and changes in this area, including the development of new recommendations regarding sharing information on going concern, related parties and events after the reporting date.

The strengthening of requirements on the conclusions of the component auditor, in comparison with the current ISA 600, is not reasonable.

8. Academics

AFAANZ

Paragraph A42 specifies that “In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:

- The consistency or similarity of language and culture”

[among many others]

There are other references to culture elsewhere in the proposed standard. However, while the proposed standard mentions cultural differences, it does not explain the risks involved. These are extensive. There is a substantial body of research showing that, for example, auditors brought up in certain cultures may approach the exercise of scepticism differently and may vary in the way they question and challenge management; or that they rate risk differently. Auditors may make different materiality assessments depending on their cultural background. Nolder and Riley (2014) summarise the literature examining the effect of culture on auditor judgments. Other studies have shown that compliance with an audit firm’s global policy varies depending on culture (Bik and Hooghiemstra 2018). Research also shows that modified audit opinions are more likely to occur in some cultures than others (Chen et al. 2017).

Given the importance for group audit quality of recognising and responding to differences in national culture, we recommend that an additional appendix to the proposed standard be drafted detailing the considerations relating to culture in a group audit.
Q8(b) – Disagree

4. National Auditing Standard Setters

IDW

We believe that the basis for the nature, timing and extent of interactions between the group engagement team and component auditors throughout the different phases of the group audit, including sufficient involvement of the group engagement partner and group engagement team, is not sufficiently clear and are not appropriate.

The unclear and inappropriate basis relates to 1. when component auditors are to be involved, 2. when component auditors are involved, the nature, timing and extent of their involvement, and 3. the nature, timing and extent of the group engagement team’s involvement in the work of the component auditor. Our general response above to Question 8 deals with the first two issues. With respect to the third issue, we note that paragraphs 30 and 31 of extant ISA 600 provide fairly clear requirements on the nature, timing and extent of involvement of the group engagement team in the work of component auditors for certain situations and factor in the group engagement team’s understanding of the component auditor (dealt with in paragraph 19 of extant ISA 600, the related application material in paragraph A33 of which includes a discussion of the various factors similar to those in paragraph A42 of the draft). In contrast, paragraph 23 in the draft only requires the group engagement team to “take into account” higher and significant assessed risks of material misstatement and areas of significant judgment in the financial statements without considering the group engagement team’s understanding of the component auditor. Paragraphs A50 and A 51 provide some additional potential factors that the group engagement team may consider in determining the nature, timing and extent of its involvement, but, unlike in extant ISA600, there is no reference to the group engagement team’s understanding of the component auditor.

We believe that, similar to extant ISA 600, and based upon the changes we think need to be made as discussed in our general response above to Question 8, the draft needs to introduce clearer requirements on the nature, timing and extent of the group engagement team’s involvement in the work of the component auditor. We believe this can be best achieved by setting forth clear requirements based upon the requirements in extant ISA 600 for situations in which component auditors perform full scope audits of the financial information of components and perform audits of classes of transactions, account balances or disclosures in component financial information that have a reasonable possibility of containing a significant risk. Furthermore, to the extent that various factors need to be taken into account in this determination, we believe that, similar to the requirement in paragraph 8 of ISA 620, there needs to be a requirement that sets forth those factors (including those related to the complexity of the risks of material misstatement) that the group engagement team needs to take into account, including those factors related to the group engagement team’s understanding of the component auditor.

7. Member Bodies and Other Professional Organizations

WPK

No, we disagree: see in particular sections 7 and 3 above.
Q8(b) – No Comment

1. Monitoring Group
   IAIS
   No comment

4. National Auditing Standard Setters
   ICAI
   No Comment
   KSW
   No comment
   NZAuASB
   No comment

7. Member Bodies and Other Professional Organizations
   AE
   No comment
   CAANZ-ACCA
   No comment
   CAQ
   No Comment
   FAR
   In general, FAR supports the response submitted by the Nordic Federation of Public Accountants and FAR therefore refers to this response.
   MICPA
   No comment

8. Academics
   GRAHAM
   No Comment
LI
No Comment

9. Individuals and Others
PITT
No Comment