

October 2, 2020

The Chairman
International Auditing and Assurance Standards Board
International Federation of Accountants
529, 5th Avenue,
6th Floor
New York 10017
United States of America

Via Online Submission

Dear Mr Tom Seidenstein

COMMENTS ON IAASB EXPOSURE DRAFT 'PROPOSED ISA 600 (REVISED): SPECIAL CONSIDERATIONS - AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS) AND PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISA'

The Malaysian Institute of Certified Public Accountants ("MICPA") appreciates the opportunity to comment on the IAASB Exposure Draft '*Proposed International Standard On Auditing 600 (Revised): Special Considerations - Audits of Group Financial Statements (Including The Work of Component Auditors)*'. We also applaud the effort of the IAASB to enhance the clarity and understandability of the ISA.

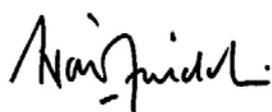
In this regard, we are pleased to attach MICPA's comments as set out in Appendix I for your consideration.

We trust our comments and accompanying recommendations to be of value and useful to the IAASB, in your onward deliberation. MICPA looks forward to further strengthening such dialogues with your organisation.

Please do not hesitate to contact the undersigned or the Technical Director, Ms Chiam Pei Pei, at +603-2698 9622 should you require any clarification.

Thank you.

Yours sincerely,



NOVIE BIN TAJUDDIN
Chief Executive Officer

Our responses to the specific questions are as follows:

Question 1: With respect to the linkages to other standards:

(a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?

Comment:

The proposed ISA 600 (Revised) has appropriate linkages to other ISAs and with the proposed ISQMs.

(b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

Comment:

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

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

Question 2: With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?

Comment:

We support the placement of sub-sections throughout the proposed ISA 600 (Revised) that highlights the requirements when component auditors are involved, as it provides clearer linkage to other standards and the requirements of the relevant standards.

Question 3: Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

Comment:

We are of the view that the requirements and application material of the proposed ISA 600 (Revised) appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements particularly with the introduction of the new "stand back" requirements.

However, the changes in the basis for scoping for components may undermine professional skepticism as component auditors may now only perform the procedures necessary to audit the specified account balances or line items and not give due consideration of the risks relating to the components.

We believe there is therefore a lack of clarity with regard to the identification of components. With the removal of the concept of significant components, there should be practical guidance on how the new risk-based approach under ISA 315 (Revised 2019) in driving the determination of components can be consistently applied and with particular emphasis on the interaction between the group engagement team and the component auditors in the identification process.

Question 4: Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).

Comment:

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

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

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

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

Question 5: Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?

Comment:

We believe the proposed ISA 600 (Revised) is scalable and provides more flexibility to the group auditors to plan and perform the audit of groups of different sizes and complexities.

The inclusion of separate sections for considerations when component auditors should be involved is very helpful for the group engagement team to identify which requirements need to be applied or not.

Question 6: Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?

Comment:

We support the revised definition of a component to focus on the auditor view of the entities and business units comprising the group for purposes of planning and performing the group audit, as it provides more flexibility for the group auditors to plan and perform the audit.

However, there may be challenges if the group auditors' definition of a component is inconsistent with the view of the Chief Operating Decision Maker (CODM) as defined under IFRS 8. Application guidance should be provided to cater for such situations.

As articulated in our responses above, the input of the component auditors is critical in determining the risks of material misstatements in the group financial statements which in turn determines the identification and definition of components under the risk-based approach in view of their more detailed and in-depth knowledge and understanding of the component than the group engagement team. There should be application materials or a framework developed to set out the expected involvement of component auditors in this process.

Question 7: With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

Comment:

We support the enhancements to the requirements and application material on restrictions on access to information and people and are of the view that the proposed ISA 600 (Revised) has addressed restrictions on access to information and people and provided practical ways for group engagement teams to overcome such restrictions.

The proposed standard also requires the group engagement team to make an assessment of its ability to access the component auditors including any audit documentation it may require. As stated, there are certain challenges to obtain access to information, component auditors and component management, particularly for equity-accounted components, as stated in paragraph 16 of the proposed ISA 600 (Revised) as there is no legal provision in our jurisdiction for such access. This may have the unintended consequence of certain group entities of not being able to appoint any group auditors in view of the inability to have access and the group auditors risking legal action for accepting such audit appointments having known the access limitations.

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?**

Comment:

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.

Question 9: Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?

Comment:

We support the additional application material on the commonality of controls and centralised activities. It is clear and appropriate.

Question 10: Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?

Comment:

We support the proposal. However, we believe the application material could be improved by providing additional guidance and clarity on component performance materiality in view of the disaggregation example in Paragraph A75 of the proposed ISA 600 (Revised).

With the elimination of the significant component concept, there may be challenges in determining performance materiality of the components. The determination of an appropriate component performance materiality may also require the involvement of the component auditor.

More clarification in situations involving joint ventures, associate and shared service centers are required to provide guidance for group engagement teams on component materiality considerations.

Question 11: Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:

(a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?

Comment:

We support the enhanced requirements and application material on documentation.

Paragraph A124 of the proposed ISA 600 (Revised) states that the extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgement. However, we believe that the development of application materials as to the level of details the audit documentation for a group audit engagement is expected in order to meet the requirements will be very helpful. This will also be a useful reference guide to manage the expectations of regulators.

In addition, providing clarification relating to the extent of evidence that is expected to be retained in the group audit documentation where a component auditor is involved in the risk assessment process would also be helpful.

(b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?

Comment:

We agree with the application material relating to the group engagement team's audit documentation when access to component auditor documentation is restricted. This will be helpful to group engagement teams.

Question 12: Are there any other matters you would like to raise in relation to ED-600?

Comment:

We believe it will be useful to prepare materials on the implications of this proposed ISA 600 (Revised) to explain to group management and preparers of group financial statements as to whether this will result in more or less efforts on their part to prepare for and attend to the audit processes.

There is also a requirement for group engagement teams to make an assessment of the quality of component auditors including considering the results of external quality Inspections. This will be a challenge particularly if the component auditors are not from the same network of firms in view that such information are generally not publicly available and will be considered as highly sensitive and confidential.

Question 13: The IAASB is also seeking comments on the matters set out below:

(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.

Comment:

This is not applicable to us.

(b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Comment:

We are of the view that it should be extended to 24 months after approval of a final ISA as it is deemed more appropriate and allows sufficient time for both the group auditors as well as component auditors to prepare themselves for the implementation of the proposed ISA 600 (Revised) in light of the significant changes that have been proposed.