

Proposed International Standard on Auditing 600 (Revised) Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)

We welcome the opportunity to comment on this Exposure Draft (ED).

Moore Global is a leading mid-tier network with over 250 independent member firms in 110 countries. Our firms are multi-disciplinary practices, providing a wide range of professional services, which fall within the scope of this Exposure Draft.

KEY POINTS**OVERALL**

1. We welcome the draft standard and the opportunity to comment. Global Regulators have, in recent years, consistently identified the audit of group financial statements as an area of concern and we believe that this revision of ISA 600 is addressing a clear and present need. We broadly support the direction and detail of the proposed standard. In particular, current events underline just how important - and how fragile - communication can be. Requirements that force better communication are welcome. We do however have some concerns particularly, but not exclusively, relating to the potential impact on mid-tier (and smaller) audit practices.
2. The top down approach taken by the proposed revised ISA has much to recommend it, however we do have some concerns. The pivot away from 'significant components' does make perfect sense in many contexts, but possibly not in all. We suggest that it might be more 'scalable' if IAASB considers whether a hybrid approach could be adopted which takes more into account the nature and circumstances of a group, and indeed of the group auditor and which would enable a significant component approach in specific circumstances where that would be appropriate and suitable in context. Allowing such an approach would necessitate additional guidance on what auditors should consider (and document) when determining which approach was suitable.
3. An alternative to the above could be considering simply providing more guidance stressing that the nature and circumstances of a group are a key consideration to determining the approach taken and including an example in the guidance which illustrates when that might lead to a more traditional component audit (at least partially). An allowable hybrid approach might reduce the potential lack of proportionality between the impact of the revisions and improvements in audit quality in some circumstances. While we note that appendix 1 contains material relating to component auditors, we feel that guidance could be more prominent.
4. The proposals do not require a minimum level of local risk assessment. This could give rise to the risk that, if component auditors are less involved (or are no longer used in some cases) the group engagement team may not obtain the information they need to identify and/or assess locally derived relevant risks.
5. We agree that the highlighting of elements of the ISA relating to component auditors makes it easier to identify those elements. However, we are concerned that this approach gives potential for confusion between the concept of scalability and the concept of a group audit which involves component auditors. In our view, the presence or absence of component auditors is not the only thing that makes a group

audit complex or non-complex. There are other potential drivers including the structure of the group.

6. We have some concerns about the linkage of the proposed ISA with proposed ISA 220. The definition of group engagement team in the proposed ISA 600 excludes component audits but the definition of engagement team in proposed ISA 220 includes component auditors as part of the engagement team. Our concerns relate to the group engagement partner's responsibilities regarding direction, supervision and review and the practical issues of fulfilling those responsibilities in the context of a transnational group audit with component auditors. Our concern is that this might be perceived as undermining the principle of component audits, in particular component audits performed by a component auditor that does not belong to the same network as the group auditor. Many audit methodologies and tools including those sourced by third party providers will need to be rewritten/reprogrammed to take account of some of the approach changes which will be necessitated by the proposed revised ISA. This could have a major impact, especially on mid-tier and smaller audit practices. We are concerned that the impact of the revisions may not in all cases be proportionate to the amount of improvement in audit quality that will result, particularly in the light of the anticipated effective date. We believe an effective date of December 2023 year ends will not give firms (or indeed third-party providers) sufficient time to revise, update and appropriately train staff on audit tools and methodologies. We strongly believe that the effective date should be December 2024 year ends.

ANSWERS TO SPECIFIC QUESTIONS

Overall questions

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?

(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?

7. ED-600 has, in the main, appropriate linkage to other ISAs and with the proposed ISQMs (as far as we are aware). We are however concerned about the linkage of the proposed ISA with proposed ISA 220.
8. The definition of group engagement team in the proposed ISA 600 excludes component audits but the definition of engagement team in proposed ISA 220 includes component auditors as part of the engagement team.
9. Our concerns relate to the group engagement partner's responsibilities regarding direction, supervision and review and the practical issues of fulfilling those responsibilities in the context of a transnational group audit with component auditors. Our concern is that this might be perceived as undermining the concept of component audits, in particular component audits performed by a component auditor that does not belong to the same network as the group auditor. This is exacerbated by the application material which includes examples describing how common policies and procedures can support the group engagement partner, but which do not include examples involving non-network component auditors.

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?

10. The sub section approach works well. It will be helpful particularly for group audits where component auditors are not used, since the sub section structure will make it easier to see which elements do not apply in that situation.

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?

11. We feel that the material in ED-600 is largely neutral on the exercise of scepticism specifically in a group audit context. There might be benefit in considering whether there are group audit specific conditions, events, nature or circumstances that might give rise to a need for heightened scepticism that could usefully be highlighted in application material. IAASB could usefully consider highlighting or at least acknowledging the role of component auditors in exercising their own, and enhancing the group auditor's, scepticism as a result of jurisdiction specific knowledge and experience.

Specific Questions

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).

12. The scope and applicability is generally clear, however we note that it would be helpful to add additional guidance on Letterbox audits, particularly in the light of the fact that these have been highlighted in the past as causes of concern for some regulators. It would also be helpful if there was additional guidance on shared service centres (which do not conform to a one size fits all model) and in particular an articulation of the concept of aggregation process.
13. IAASB should consider providing additional guidance relating to audits of companies where an entity has no subsidiaries but equity accounts for investments in associates or joint ventures.
14. We support the definition of group financial statements including the link to consolidation process but see our comments above.

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?

15. We are concerned that ED-600 could be interpreted as presenting the concept that the main 'driver' of non-complexity is the non-existence of component auditors. While we accept that the existence of component auditors may make things more complex for the group auditor (although not necessarily), we believe that complexity can also arise from other circumstances. We believe that it would be helpful if IAASB considered whether it can envisage non-complex groups that might still involve component audits and, if so, further consider if the proposed standard is sufficiently scalable. Our concern lies in the possibility that the revised standard may in some

non-complex cases increase work effort disproportionately compared to the improvement in quality achieved and further that the use of component auditors may consequently be disincentivised.

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?

16. We are neutral on the revised definition. We believe that in many circumstances, the auditor view of the entities and business units comprising a group will not substantially differ from management's view.
17. We appreciate that in those circumstances where views do differ the new definition will afford auditors greater flexibility. This may be particularly useful where auditors wish to aggregate (or disaggregate) components and where there are shared service centres.
18. We do however have some concerns that implementation could cause some challenges with regard to risk assessment and identification of relevant risks and determining component materiality. There may also be practical challenges such as determining who component management would be (in relation to communication with management) if the auditor's view of components differ from that of the client. Further, depending on financial reporting frameworks, there may in some cases not be appropriate financial information for the components per the "auditors' view".

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?

19. We support the enhancements to the requirements and applications material relating to acceptance and continuance of group audit engagements.

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?**

20. We support the general principle of a risk-based approach. We believe that the risk-based approach will generally result in appropriate assessments of risk and design and performance of risk responses. However, we have concerns that the increase in the level of additional process that may be required may not be matched by a proportionate improvement in audit quality outcomes.
21. As noted above, we are concerned that one consequence of the top down model and the new definition of a component could be a move away from the use of component auditors in group audits. This may have the unintended consequence that 'local' risks of material misstatement may not be appropriately identified (or appropriately

assessed) at group level despite the likelihood of additional work effort being expended by the group audit engagement team. The current ISA 600 requires a minimum level of local risk assessment that is absent from ED-600 and we do not believe that losing this will improve audit quality.

22. 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.

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?

23. We support the intention behind the application material on commonality of controls and centralised activities. We believe it is a step closer to reality, as there are several instances where a commonality of controls and centralised activities are used. Recognition of this is welcome. We do however also believe that more explanation of the two concepts, together with examples, would be helpful.

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?

24. We do support the focus on component performance materiality. However we have concerns that the practical aspects of the proposed requirements could be challenging for some auditors particularly in circumstances where business components are disaggregated.
25. We would welcome additional implementation and practical guidance in the interests of consistency and to reduce or avoid circumstances where the auditor's judgement may be too broad. We would welcome specific examples provided in the application material, in this instance. While we recognise that there could be a crossover with methodology and tools, we do think that in this instance, specific guidance would be appropriate.
26. We would also welcome additional implementation and practical guidance to address circumstances where there are many subsidiaries, but a very homogenous group structure where there are no material balances or major risks across the entire group – these circumstances might be found in non-complex or less complex group situations and absent specific guidance, they could prove more challenging than more obviously problematic situations in more complex groups.

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?

(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?

27. We support the enhanced requirements and application material on documentation. We agree that the extent of component auditor documentation on the group

engagement file is a matter of judgement for the group engagement team, however we note that there may be practical issues arising from the use of automated audit tools which may not necessarily be compatible. We would therefore welcome additional practical guidance in this area including guidance directed at component auditors regarding the provision of access and information as requested. In particular it would be helpful if additional practical guidance was provided relating to what is acceptable in those circumstances where audit tools are incompatible. Absent such guidance inconsistency between jurisdictions will persist. This could be a disincentive to the use of component auditors (even when that would be appropriate) or to the use of component auditors from outside the group auditor's network.

28. We would welcome it if the IAASB would consider addressing the issue of who is ultimately responsible for assembling and archiving a group audit file in light of the different audit firms that may be involved at component or group engagement team level, as well as the possibility of restrictions on access outside the control of the group management.

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

29. We have suggested or requested additional guidance material relating to several aspects of the proposed revisions in this response. We believe that practical guidance, including examples, will be both helpful and appropriate in delivering a smooth implementation of what is in many ways a very 'practical' standard. We would encourage IAASB to consider what is the best form of guidance for practical issues and to take advantage of the many opportunities offered by modern methods of communication.

Request for General Comments

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.

(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.

Translations: Given that translation can be an issue at the best of times, it is not unlikely that any ordinary translation challenges (e.g. over timescale) could be amplified by the Covid pandemic. This is another argument for deferring the implementation date of any final revisions

Effective date: Many audit methodologies and tools including those sourced by third party providers will need to be rewritten/reprogrammed to take account of some of the approach changes which will be necessitated by ED-600. This could have a major impact, especially on mid-tier and smaller audit practices. We are concerned that the impact of the revisions may not in all cases be proportionate to the amount of improvement in audit quality that will result, particularly in the light of the anticipated effective date. We believe an effective date of December 2023 year ends will not give firms (or indeed third-party providers) sufficient time to revise, update and appropriately train staff on audit tools and methodologies. We strongly believe that the effective date should be December 2024 year ends.