

# Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

1 October 2020

To: Mr Thomas R. Seidenstein  
The Chairman  
International Auditing and Assurance Standards Board  
529 5th Avenue 6th Floor  
New York 10017  
United States of America

Submission via IAASB website

## Submission on IAASB's Proposed ISA 600 (Revised): Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

### General comments

We welcome the opportunity to comment on the IAASB's Proposed ISA 600 (Revised): Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). We commend the IAASB for making another important step with ED-600 following the feedback received on the Invitation to Comment issued back in 2015.

### Engagement team definition

The revised definition of engagement team as per proposed ISA 220 (Revised) now includes component auditors. In addition, as per the proposed ISA 220 (Revised) the engagement partner shall take responsibility for other members of the engagement team for example, ensuring that they are made aware of relevant ethical requirements that are applicable given the nature and



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circumstances of the audit engagement, and the firm's related policies or procedures. We have concerns regarding the practicality of this in the case of group audits, in particular, when component auditors are outside the group auditor's network firm.

This makes the use of component auditors who are outside the network firm more complex. SMPs have raised concerns that this will lead larger firms to use in-network firms to perform group audit work regardless of the existence of a local non-network firms performing local audit work. Practitioners in larger firms agreed that, as written, ED-600 makes it easier for them to use in-network firms for group audit work. Local statutory audit firms, given their responsibility to also report on ISA 250 (Revised), Consideration of Laws and Regulations, may be better positioned with their statutory knowledge to identify issues than a local audit firm of a large network that has a sole responsibility to report to the group auditors only for matters affecting the group financial statements. Therefore, there is a risk to audit quality if local statutory audit firms are excluded from component engagements. This could also lead to additional administrative burden for the audited entity having to deal with two different firms for component and statutory work.

### **Risk-based approach**

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

Our responses to the specific questions for comment raised in the ED-600 follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; [melanie.scott@charteredaccountantsanz.com](mailto:melanie.scott@charteredaccountantsanz.com) and Antonis Diolas, Head of Audit and Assurance at ACCA via email: [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com).

Yours sincerely

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# Submission on IAASB's Proposed ISA 600 (Revised)

## Appendix A

### 1. With respect to the linkages to other standards:

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

Yes, in our view ED-600 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?

We appreciate that the revised ED-600 is designed to ensure the group engagement team has increased involvement and oversight of the group engagement. However, it is important to find the balance between this objective and the need to ensure audit quality is maintained by requiring the involvement of local auditors where their knowledge of the component means they should be involved in risk assessments and other procedures.

The revised definition of engagement team as per proposed ISA 220 (Revised) now includes component auditors. In addition, as per the proposed ISA 220 (Revised) the engagement partner shall take responsibility for other members of the engagement team for example, ensuring that they are made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. We have concerns regarding the practicality of this in the case of group audits, in particular, when component auditors are outside the group auditor's network firm.

This makes the use of component auditors who are outside the network firm more complex. SMPs have raised concerns that this will lead larger firms to use in-network firms to perform group audit work regardless of the existence of a local non-network firm performing local audit work. Practitioners in larger firms agreed that, as written, ED-600 makes it easier for them to use in-network firms for group audit work. Local statutory audit firms given their responsibility to also report on ISA 250 (Revised), Consideration of Laws and Regulations, may be better positioned with their statutory knowledge to identify issues than a local audit firm of a large network that has a sole responsibility to report to the group auditors only for matters affecting the group financial statements. Therefore, there is a risk to audit quality if local statutory audit firms are excluded from component engagements. This could also lead to additional administrative burden for the client having to deal with two different firms for component and statutory work

### 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?

Yes, we support the proposed structure.

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### **3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements?**

In our view although the requirements and application material of ED-600 can be useful, ED-600 should focus on reinforcing the exercise of professional scepticism more specifically for group audits. For example, according to the risk-based approach introduced in ED-600, auditors may view the group different than its legal structure for audit purposes, therefore some emphasis on professional scepticism and how it is exercised in particular circumstances could be helpful for practitioners.

Due to the revised definition of engagement team including the component auditors, the group auditor has overall responsibility for the group audit, including the work done by different firms. We received feedback that this extends the risk for the group engagement team and make the exercise of professional scepticism more complex and therefore guidance for practitioners in this area would be very helpful.

### **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)**

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

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

### **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?**

Yes, we are of the view that the proposed standard is scalable and improved from extant. However, practitioners' feedback suggests that, to be able to scale the requirements of the standard appropriate for larger or smaller entities, it will be vital that they are able to perform the risk assessment correctly. Although the implementation of ISA 315 (Revised) will assist auditors in becoming more proficient with the risk-based approach which will assist with the implementation of ED-600, we do recommend that some form of implementation guidance is developed with examples of the risk assessment process for both small and large groups to assist practitioners.

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### **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?**

We generally support the revised definition of a component, although we received some feedback that the risk assessment process appears to be challenging. In our view the implementation of ISA 315 (Revised) will assist auditors becoming more proficient with the risk-based approach which in its turn will help them deal with ED-600. However, we suggest that implementation guidance is developed in this area to assist auditors making the adjustment in viewing a group in this way if in their judgement it is more appropriate to do so.

Feedback indicates that there may be some practical challenges in implementing this change which may make practitioners reluctant to consider moving away from the established view of a group, i.e. viewing it from a legal structure or internal management structure. Practitioners raised a concern that this is an area which is likely to lead to regulator challenge, for example, when in the last year's group audit a component was deemed significant based on the extant approach, whereas this year based on the new approach no work is deemed necessary. Appropriate documentation will be key to the auditor documenting their assessment of the group and again, this is an area where implementation guidance may be useful.

Furthermore, the revised definition raises an important question on how the group auditor would determine who are the appropriate people to consider as being TCWG of a 'component' if using a different view of what is a component than business units or legal structure is determined to be more appropriate?

### **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?**

We are generally supportive of the enhancements made to the requirements and application material. However, according to the feedback we received, there are concerns over the access to associates and joint ventures where group management may not have control. We therefore suggest that more explicit guidance should be provided over and above what is currently included in paragraph A29.

Furthermore, some practitioners felt that the standard needs to provide additional guidance and flexibility to assist auditors dealing with components in jurisdictions where local regulations impose restrictions to non-residents. Such circumstances create issues such as accessing data, challenging component auditor judgements, producing working papers to satisfy regulators in the group auditor's jurisdiction, dealing with translations and others. Paragraphs 16 and 17 as currently drafted lead the auditors to having to disclaim their opinion where these matters cannot be resolved. We therefore believe that it would be useful to provide additional guidance to assist auditors addressing these issues where it may be possible to do so.

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Feedback received also suggests that more guidance should be developed or be included in ED-600, in respect of access of client files, similar to the alternative procedures under ISA 501 in respect of physical stocktake. This would be very helpful for practitioners if countries' lockdown situation recurs in the future due to Covid-19 or any other reason.

**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?**

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

These concerns are further substantiated by the concerns mentioned in our answer to question 1 and we therefore believe the IAASB should carefully consider how to address them. We do note that these issues are more important now than ever, where audit reform reviews are happening around the world focusing on quality of audits and healthy competition in the audit profession.

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

According to the feedback received there is a need for more clarity on what truly is a common control and what would still need to be separately tested. Furthermore, the judgement of whether you have a common control appears to be framed too broadly causing concern that controls may be relied on as common controls when, in reality, they are not.

**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?**

We support the focus of ED-600 on component materiality. However, we do note that since this section introduces new complex concepts, more guidance and implementation assistance will be needed to assist practitioners.

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Determining component materiality appears to be complex for firms under the extant standard. Feedback we received suggests that many firms have adopted or developed a framework based on a paper by Glover et al<sup>1</sup> and that, even with standardised frameworks in place, a lot of work effort on the part of the team goes into this determination. The new concepts and approach appear to be even more complex and suggest the need for of a developed framework in order to achieve consistency across firms, networks and the wider audit profession overall.

**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?**

We don't have any other matters.

**(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?**

Yes, we agree with the application of these paragraphs.

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

We don't have any other matters to raise.

**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.**

As noted, ED-600 is a substantive revision and once it is approved, we anticipate that the due process will take about one year. Firm of all sizes will need to be provided with sufficient time to update their audit methodologies and to provide the necessary in-house training to their staff. Furthermore, we note that the IAASB should consider that firms are still 'grappling' with ISA 315 implementation, a key standard on which ED-600 is based on. Additionally, the recent approval of ISA 220 (Revised), ISQM2 and ISQM1 will place more burden on firms to prepare for their

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<sup>1</sup> <https://www.journalofaccountancy.com/issues/2008/dec/componentmaterialityforgrouppaudits.html>

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implementation. Lastly, the current uncertainty in light of Covid-19 provides a further challenge for firms and should also be considered.

We therefore suggest a minimum of 24 months after the approval of the final ISA.



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## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 128,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.



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### About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

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