



Response to IAASB

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

2 October 2020

INTRODUCTION

ICAS welcomes the opportunity to comment on the IAASB's Proposed International Standard on Auditing 600: (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).

Our CA qualification is internationally recognised and respected. We are a professional body of over 22,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to James E Barbour, Director, Policy Leadership.

General comments

We are supportive of the approach proposed in ED-600. The integration of this proposed revised standard with the rest of the suite of ISAs is of course crucial and we believe that the IAASB has managed to achieve this in an appropriate manner.

In particular, we welcome the focus placed on the auditor's judgement in allowing flexibility as to the most appropriate audit strategy to ensure an effective and efficient audit of group financial statements. We also welcome the inclusion of a requirement on "Leadership responsibilities" for managing and achieving quality on a group audit, early on in the proposed standard.

There may be some practical challenges and risks associated with applying the proposed standard, particularly when the finalised standard is first introduced. To mitigate such risks at the implementation stage we believe that further guidance outside of the ISA on certain areas would be helpful to auditors. This would cover matters such as when does the standard apply (entry point); practical considerations in relation to complex group structures, including joint ventures; and considerations relating to non-corporate group entities.

Our responses to the questions posed in ED-600 are included below.

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?

Response 1

- (a) We are supportive of the approach adopted to revising ISA 600 i.e. that ED-600's requirements and application material should address special considerations related to group audits and, therefore, should not repeat the requirements and application material in other ISAs. This places the focus very much on the subject matter in hand. We believe that ED-600 does contain appropriate linkages to other ISAs and the proposed ISQMs. This integration should also be better facilitated when the ISAs become available on the forthcoming digital standards platform.

- (b) We believe that ED-600 does sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including the proposed ISA 220 (Revised). We are not aware of other special considerations for a group audit that have not been addressed in ED-600.

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?

Response 2

We are supportive of this approach. We understand that some may view this approach as potentially undermining the important role that component auditors can play in a group audit, however, on balance we believe the proposed approach to be appropriate.

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?

Response 3

We welcome reinforcing the need for auditors to exercise professional scepticism.

We would also highlight the recent approval by IESBA of its Role and Mindset revisions to its Code of Ethics. These put in the place the need for all professional accountants to adopt an "inquiring mind". This requirement, therefore, applies to professional accountants who are preparing financial statements and they should not just accept information at face value. The IAASB along with IESBA should highlight this revision to stakeholders in their respective outreach to make clear that the primary responsibility for ensuring that group financial statements present fairly the financial performance and position of an entity sits with the directors. The introduction of an enhanced auditing standard on group financial statements, although welcomed, will not by itself necessarily result in improved group financial information being presented by organisations. This will require a holistic approach by the various parties across the corporate reporting ecosystem.

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).

Response 4

We believe that the scope is better explained in the explanatory memorandum and consideration should be given to better reflecting this in the finalised standard. Additionally, further illustrative guidance outwith the ISA on the scope would be helpful to auditors.

We are supportive of the definition of group financial statements, including the linkage to a consolidation process.

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?

Response 5

We believe that ED-600 is scalable and indeed an improvement on the extant standard. However, given the scope of the standard, and that fact that it will encompass various groups of different sizes and complexity, implementation guidance as to how scalability can be achieved would be helpful, particularly in relation to smaller audit firms.

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?

Response 6

We welcome this revised definition to allow the auditor to exercise professional judgement in relation to the most effective and efficient audit strategy to be adopted in the particular circumstances.

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?

Response 7

We are supportive of these enhancements. We recognise that a number of the issues relating to access cannot be dealt with by an auditing standard. However, we would encourage the IAASB in its outreach to discuss such matters including societal change and what "access" means in today's world of continual technological development.

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?

Response 8

If properly undertaken, the risk-based approach should 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.

Additionally:

- (a) We believe that the respective responsibilities of the group engagement team and component auditors are clear and appropriate.
- (b) 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.
- (c) 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.

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?

Response 9

We are supportive of the additional application material on the commonality of controls and centralised activities.

We welcome that the IAASB intends to develop FAQs as part of the implementation support materials to cover to some extent the interrelationship between the work on the group audit and that relating to specific components of the group. We do believe it would be helpful for auditors if more examples were provided on the factors to be considered to help them in their determination as to whether they should seek to rely on common controls and if so, how to test them.

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?

Response 10

We are supportive of this approach and the additional application material on aggregation risk and factors to consider in determining performance materiality. We believe that there would be benefit in implementation support being provided in relation to the relationship between group performance materiality and component performance materiality.

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?

Response 11

- (a) We do not believe that there are other specific matters that should be documented.
- (b) We are supportive of this application material and welcome the highlighting of the importance of the auditor exercising professional judgement in this regard.

Question 12

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

There have been a number of significant changes to key ISAs recently. We therefore believe that implementation support materials will play a key part in ensuring that ED-600, when finalised, is successfully implemented.

Response 12

There will be a need to ensure that sufficient time is allowed for audit firms to become acquainted with the approach set out in the proposed revised standard. There is considerable change occurring at the moment on a number of key ISAs and the aggregate effect of these needs to be considered.

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.

Response 13

We would refer you to our response to question 12. We have no other comments on any of these specific matters.