

International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY  
10017

02 October 2020

Dear Sirs,

**Exposure Draft: ISA 600 (Revised), (ED-600)**

**Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)**

PKF International Limited ("PKFI"), administers the PKF network of legally independent member firms. The PKF International network consists of member firms and correspondents with over 400 offices operating in over 150 countries providing assurance, accounting, and business advisory services. PKF International Limited is a member of the Forum of Firms and is dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

We welcome the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft: ISA 600 (Revised), (ED-600), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors).

We would like to thank the Chairman of the taskforce and the IAASB, including the various task forces and IESBA for the coordinated efforts and consultations during the development of this exposure draft.

With the need to address a number of significant matters, identified through the initial invitation to comment in 2015, we take this opportunity to share our thoughts, perspectives, and interpretations in the form of responding to the general and specific questions raised within the exposure draft. Where relevant, we also take this opportunity to include additional thoughts, perspectives, and interpretations that we believe are relevant. These are all contained in [Appendix 1](#) of our submission.

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely,



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## Appendix 1

### Request for Comments

#### 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

- a) We believe that there are appropriate linkages to the other ISAs as well as with the proposed ISQM, in specific client acceptance and continuance (including ethical requirements), engagement resources and engagement performance. We have made further observations and comments in our response to Question 7 of this response letter.
- b) Although special considerations with respect to other relevant ISAs have been sufficiently addressed in paragraph 1 and throughout ED-600, the task force, should also consider including special considerations for Going Concern (ISA 570), but at the component level, and Audit Sampling (ISA 530).

##### 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

Yes, we support the placement of sub-sections throughout the ED-600 to address the requirements of component auditors. By following this approach, we believe that it reinforces and emphasizes the importance of the involvement of component auditors throughout all phases of the group audit.

##### 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

While the application material of ED-600 includes guidance on the exercise of professional skepticism, there is no explicit reference to professional skepticism in ED-600 beyond its introductory paragraphs. Additionally, we are concerned that the cross-references in ED-600 to other ISAs may not be the most effective method of encouraging the auditor to consider how

professional skepticism can be exercised on a group audit. This concern is somewhat mitigated by those requirements within ED-600 on matters that are connected to the exercise of professional skepticism, for example those requirements relating to indicators management bias.

Overall, we believe that the balance could be improved by incorporating more explicit reference to the exercise of professional skepticism directly within the main body of requirements in ED-600. We encourage the taskforce to reconsider how to properly emphasize the importance of exercising professional skepticism within appropriate sections of ED-600 such as those relating to Component Auditors, Communications with Management and those Charged with Governance (paragraphs 43-46), or Documentation (paragraph 57).

## 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

The scope as detailed in paragraphs 1 to 6 of ED-600 is clear and the definition of group financial statements, including the linkage to a consolidation process provides a clear entry point into the standard. However, we note these additional comments for consideration by the taskforce:

- Paragraph 1:
  - Our understanding of ED-600 is that the auditor will apply the entire suite of the ISAs when performing a group audit and the special considerations and requirements of ED-600 are performed in addition to the other relevant ISA requirements. This needs to be explicit in paragraph 1. Regulators and stakeholders noted that one of the concerns with the extant ISA 600 was that, in some cases, the group auditor interpreted the requirements of ISA 600 as a foundational standard and not a supplementary standard and ignored or missed its linkage to other requirements in the full suite of the ISAs.
  - The last line of this paragraph lists the other relevant standards that are linked to ED-600. Understanding the need to emphasize the linkage and remind the auditor about the foundational requirements that are applicable, but not repeated in this standard, it appears that only the three standards i.e. ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330 are relevant. This is not a complete list. Consider including ISA 320, ISA 450, ISA 550, and ISA 570 as these are particularly mentioned in ED-600. Alternatively, to eliminate the risk of an incomplete list, remove the text that makes references to other relevant standards. This will also support the need for the auditor to focus on the foundational standards and the supplementary standards.
- Paragraph 2:
  - Although the term “consolidation process” is defined in paragraph 11, at the entry point to the standard, consider including the term “aggregation” in the last sentence. Consolidation is a very accounting technical term and often is interpreted as being applicable to consolidated financial statements and not group financial statements as

defined in paragraph 9 of ED-600. This is to avoid the risk that engagements which should be subject to the special considerations and requirements of ED-600, are not.

- Paragraph 3:
  - The definition for entities or business units, in this paragraph, should be included in the definitions section in paragraph 9.
  - Include the following text to the last sentence: “and might differ from the legal structure of the group”. The inclusion of the additional text is to reinforce the risk-based approach and the new definition of a “component”.

### 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

Scalability is an inherent challenge with the ISAs and is subject to professional judgement and is largely dependent on the understanding of the ISAs, as a whole, and an understanding of the entity being audited. The efforts made by the taskforce is greatly appreciated. Separating the requirements for component auditors from the requirements applicable to the group engagement team was an appropriate first step to scalability. Although mentioned and acknowledged, both in the application material of ED-600 and in section 1 and 2 of the explanatory memorandum, there are limited instances in flexibility or scalability for simple, less complex groups to sophisticated, more complex groups.

Requirements for planning and performing the group audit generally are equally applicable to all types of group audits. The scalability provisions of ISA 315 (Revised 2019) could provide additional considerations to the auditor for applying to the audits of complex or less complex groups, and it might be a helpful reminder to include a reference to the relevant sections of ISA 315 (Revised 2019) in ED-600.

### 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

We generally support the revised definition of a component however we believe that further clarification is required. The definition and the corresponding application guidance in ED-600 are still too loose as currently worded, which increases the risk of diverging interpretations amongst engagement teams.

### 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

With respect to the acceptance and continuance of group audit engagements, we support the enhancements to the requirements and application material and, in particular, that ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions.

In addition to our support, we note these additional comments for consideration by the taskforce:

- Paragraph 21 (b):
  - The requirement starts with the word “when”. This implies that only if the component auditor has provided such information regarding the results of monitoring and remediation process or external inspections, then only would the group engagement partner consider its effect on the group audit. As it reads, this is better placed as application material and not a requirement. Increasingly, in practice, group engagement partners are concerned with the assessment of component firms, especially when the component firms are outside its network or where there are weak regulatory or oversight body’s. If the taskforce considers this a requirement, it might be necessary to provide educational material on the form and content of monitoring and remediation results being mindful not to promote or facilitate anti-competitive behavior.
- Paragraph 23:
  - The matters that the group engagement partner takes into account when taking responsibility for the nature, timing and extent of direction and supervision of component auditors, and the review of their work seem to be conditional if both factors are met i.e. higher assessed risk or significant risks and, significant judgements. We believe that these should not read as a collective condition but rather as three separate elements and that the group engagement partner should take responsibility for areas of higher assessed risks, significant risks or significant judgement by either the auditor or management. Further, the application material should remind the group engagement partner that these are group audit risk areas as they relate to the component.

### 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**

The shift to a risk-based approach is certainly welcomed and aligns well with the revisions made to ISA 315 (Revised 2019) and ISA 540 (Revised). We have noted some practical challenges in point (c) below.

- a) The responsibilities of the group engagement team and component auditors are clear and appropriate.
- b) 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.
- c) Although a large amount of effort and care has gone into revising the requirements of ED-600, this does represent a significant change in the way group audits are performed. Identifying significant components, either by virtue of financial value or risk has become ingrained and synonymous with group audits. We foresee, in summary, the following practical challenges for implementing the requirements of ED-600:
  - ED-600 does not contemplate the situation whereby the group engagement team and the component team adopt a collaborative approach to performing the assessment of the risks of material misstatement of the group financial statements. Rather, ED-600 appears to assume that where a component auditor is involved in the group audit, that the relationship with the group engagement team will also take the form of one under which the group engagement team assigns aspects of the risk assessment process to the component team. In practice, a majority of group audits will be structured in this way whereby tasks are assigned to the component auditor by the group engagement team rather than adopting a more collaborative approach. Given the recent developments in collaborative technologies, we believe that ED-600 could go further in encouraging a more collaborative, and joined-up, approach between the group engagement team and the component auditor including in the risk assessment phase and in designing the appropriate audit responses.
  - Group engagement teams continue to rely on statutory audits done at a component based on legal structure, resulting in group risk assessment being driven by the component auditors risk assessment as opposed to a collaborative approach. We recommend that the taskforce consider adding, to the application guidance, that the group engagement partner, when providing direction and exercising supervision and review, to be mindful of this.

### 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

The additional application material on the commonality of controls and centralized activities is clear and appropriate.

However, there could be a better balance with ED-600 in the emphasis it places on the auditor's response to the assessed risks of material misstatement arising from common controls and centralized activities.

The main body of requirements in ED-600 only refers to the commonality of controls in the risk assessment section but does not include any specific requirements in other relevant sections such as in the response to the assessed risks, or in the section on two-way communication between the group team and the component auditor. As such, we believe that the relevance and importance of group audit procedures over the commonality of controls and centralized procedures in paragraphs A59 – A63) is not given sufficient prominence in ED-600. To address this, we suggest that the taskforce reconsider whether appropriate wording on the commonality of controls and centralized activities could be brought into the body of ED-600 and further expanded in the application material.

Further, the application material is limited to those performed by group management. It is recommended that the application material also include instances when service organizations are used and remind the auditor that, in these cases, of the requirements of ISA 402.

### 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

We do support the focus in ED-600 on component materiality, including the additional application material that has been included on aggregation risk and factors to consider when determining component performance materiality.

As mentioned in our response to question 6, we believe that it is important to define financial information, especially in the context of the revised definition of a component. If the group engagement team performs risk assessment procedures based on location, function, or activity, the form and content of financial information might not be easily obtainable as it might differ from the legal structure or accounts preparation structure. In cases like these, the auditor might experience difficulty in determining component materiality and component performance materiality. This challenge might deter the group engagement team from following a truly risk-based approach.

In addition, any education material regarding the determination of both group and component materiality will be welcomed. Further, the taskforce should consider the extrapolation consequences when misstatements are identified based on component financial information based on location, function, or activity either as application guidance or via reference to the relevant requirements of ISA 530.

### 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

We do support the enhanced requirements and application material on documentation and the linkage to the requirements of ISA 230.

- a) We have not identified any other specific matters for inclusion in paragraph 57 of ED-600.
- b) We 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.

### Question 12

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

### Response

Yes, in addition to the comments noted in responses to questions 1 to 13, we note these additional comments for consideration by the taskforce:

- Paragraph 3:  
ED-600 makes reference to the scope and that the way in which the group engagement team structures the group audit might differ from the way that management views the structure of the group. Would this need to be included in either the engagement letter or the communications with management and/or those charged with governance? It might be worthwhile adding to the application material that this should be communicated or, at a minimum, communicate this to management or those charged with governance during the planning phase of the audit engagement.
- Paragraph 9:
  - Recommended edits to the definitions:
    - Paragraph 9 (a):  
Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the “group” financial statements as a whole (Ref: Para A11).
    - Paragraph 9 (c):  
Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit.

A component auditor is a part of the “group” engagement team. (Ref: Para A13-A14)

- Paragraph 9 (k):  
Group financial statements – Financial statements that include financial information of more than one entity or business unit through a consolidation process “(as described in paragraph 11).”

- Recommended definitions to be included:
  - Financial information – this term is used throughout ED-600 and it will be important to define what financial information is.
  - Commonality of controls – this is a new term that replace a concept from extant ISA 600.
  - Centralized activities – this is a new concept and was included and intended to be wide enough to cater for the various types of activities such as service centers and HQ functions.

- Paragraph A17:  
With respect to branches or divisions, paragraph A17 of ED-600 recognizes that, in some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, paragraph A17 of ED-600 explains that, unless there are other entities or business units whose financial information are subject to a consolidation process as described in paragraph 11 of ED-600, the financial statements do not represent group financial statements and ED-600 does not apply. There are many instances where financial information is available centrally, but the audit evidence i.e. either the evidence for commonality of controls or substantive detail testing is maintained at the branch or office and component auditors are required due to its location. Does this imply that situations like this are outside the scope of ED-600? This appears not to support the risk-based approach that underpins ED-600. The scoping section appears to create a focus disparity between the location of financial information (which needs to be defined) and the location, function or activity of the audit evidence required to form the group opinion.

- Paragraph A59:  
ED-600 provides guidance on special considerations relating to commonality of controls and centralized activities. Regarding the former, commonality of controls, in order to rely on these controls, the group engagement team will need to perform testing of operating effectiveness (as per paragraph 8 of extant ISA 330. We have not seen any consequential amendments to ISA 330 in ED-600 to cater for the nature and extent of testing of operating effectiveness for commonality of controls. Will this be limited only to components that are identified (i.e. for the group audit perspective) or all entities or business units?

Paragraph 57 and A124:

Audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. The audit documentation for the group audit includes documentation of the nature, timing and extent of the work performed by

component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file. However, the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). The extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment. This is very discretionary. In practice, we have had cases where regulators or oversight bodies questioned the group engagement team/partner on how significant risks were addressed by the component auditor and to provide the relevant working papers addressing these risks. Even though the group engagement team and group engagement partner adequately documented the exercise of supervision and review, this was not considered sufficient and often requested to review the actual working papers completed by the component auditors. In addition, there is a propensity for component auditors to amend working papers, especially in cases where the component audit firm does not have a robust file archiving policy when providing the requested working papers to the regulators or oversight bodies, for review. We recommend that the taskforce consider a more stringent approach to protect the group engagement team by either making it a requirement to retain a copy of the relevant working papers that address higher assessed risks, significant risks or areas of significant judgement or through the effective 2 way communication process detailed in paragraph 44 of ED-600, include application guidance for component auditors to commit that audit evidence prepared by the component auditor will not be edited once provided to the group engagement team.

## Specific Questions

### 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

- a) Translations – we have not identified any potential translation issues.
- b) Although the revision represents a substantial change from extant ISA 600, we believe that the taskforce and the IAASB should not delay in finalizing ED-600. However, with the release of ISA 540 (Revised), ISA 315 (Revised 2019) and the ISQM's, there needs to be a period to assess post implementation to determine whether those revisions have yielded

the desired outcome as many of the concepts of ISA 315 (Revised 2019), ISA 220 (Revised) and the ISQM's are included in ED-600.

**Glossary of terms**

IAASB	International Auditing and Assurance Standards Board
ED	Exposure Draft
ISA	International Standards on Auditing
ISQM	International Standards on Quality Management