



KAMMER
DER **STEUERBERATER**
UND **WIRTSCHAFTSPRÜFER**

Mr. Mag. Gerhard Prachner

gerhard@prachner.at

Austria, 2. October 2020

Subject: IAASB Exposure Draft – Proposed ISA 600 (Revised) – Audits of Group Financial Statements

Dear Sir or Madam,

the Austrian Chamber of Tax Advisors and Public Accountants is pleased to provide you with its comments on questions 1 to 11 of section 3 of the IAASB Exposure Draft.

Sincerely,

Mag. Gerhard Marterbauer e.h.

(Chair of the KSW Company Law and Audit Committee)

Dr. Gerald Klement e.h.

(Secretary General)

Austrian Chamber of Tax Advisors and Public Accountants

The Austrian Chamber of Tax Advisors and Public Accountants, KSW is the statutory and regulatory authority of tax advisors and public accountants in Austria. KSW represents more than 10,000 members, making tax advisors and public accountants the second-largest group within the liberal professions. For 70 years now, KSW has been a reliable partner for its members and an important point of contact for the business sector and politics in Austria in all matters relating to tax advising and auditing. KSW works with the Austrian legislative bodies on bills of law and provides expert advice to its members.

The Austrian Chamber of Tax Advisors and Public Accountants is in the EU Transparency Register (No 533887237765-96).

We very much support all efforts to improve audit quality in the public interest. Especially extant ISA 600 is quite old and needs changes with respect to the required policies and procedures with respect to group audits.

However, with respect to the general approach taken in ED ISA 600, we do have concerns that this might not be accomplished with this ED 600.

We do refer to our answers in the **Annex**. We hope that our comments are helpful. If you have any further questions, we would be pleased to discuss such matters further with you.

Overall Questions

1. With respect to the linkages to other standards:

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

No, we do not believe that ED-600 has appropriate linkages to other ISAs (especially ISA 540 revised and ISA 315 revised). It depends on how the audit profession will implement the new requirements of ISA 540 revised and ISA 315 revised. The requirements of ED 600 should build on the fundamental requirements of those standards and should focus on the special considerations related to group audits.

The risk assessment process will significantly change as a result of implementing ISA 315 revised and ISA 540 revised. We believe that ED-600 does not yet take notice of such changes and contemplate in a sufficient way the practical implications in the context of a group audit.

(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?

In line with the proposed ISA 220 (Revised), ED-600 states that component auditors are members of the engagement team performing the group audit. This will lead to vast practical challenges related to the group engagement partner's responsibilities for direction, supervision and review. Especially when component auditors are involved, who are not in the same network as the group engagement team, in group audits. The more disaggregated the group to be audited is organized itself, the tougher it will be in practice.

In addition, this approach could lead to regulatory constraints in some jurisdictions around the world.

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

We want to point out that there is a risk of undermining or discouraging the involvement of component auditors by presenting relevant requirements separately. We also do not

believe that the new structure will contribute to the scalability of ED-600.

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?

We are not convinced that the requirements will significantly enhance the application of professional skepticism, as is not an issue of requirements. The level of professional skepticism depends on the information available to group engagement team and the knowledge of the group. This includes the involvement of component auditors, which will provide a broader and more focused view to the group engagement team especially for large groups operating in various jurisdictions. Therefore, we believe ED-600 should not be discouraging the involvement of component auditors by over-emphasizing the top-down and centralized approach.

Specific Questions

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).

In our opinion the scope and applicability are clear. However, the explanations do not fully reflect them in the requirements of ED-600, leaving room for different interpretations. There are certain scenarios where it is problematic to find out whether ISA 600 applies or not. Letter-box audits and audits of shared service centers are examples. IAASB should provide scenario-based application guidance on this. Otherwise it will trigger local interpretations or potentially interpretations by regulators. Guidance is necessary for engagements that involve more than one auditor that do not meet the definition of an audit of group financial statements.

The identification of significant and non-significant components in the extant ISA 600 has been a fundamental part of group audits in the past and is considered be very effective in practice. Therefore, it is important to retain this distinction. IAASB should find a way to ensure this.

Also the response to assessed risks as described in extant ISA 600.27 and ISA 600.29 should be retained as it is not assured that the centralized risk approach would lead to a systematic and widespread replacement of full scope audits, performed by component auditors for group audit purposes by a combination of specified audit procedures of individual line items due the assessed risk at group level. Such a development would diminish group audit quality.

- 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?**

We believe that scalability is not sufficiently addressed in ED-600. Our main concern pertains the emphasis of the centralized and top-down approach, which results in more work at group engagement team level and neglecting the involvement of component auditors.

Also, the elimination of the minimum types of engagements for components (e.g. full scope audits or reviews of reporting packages) of extant ISA 600 does not add to scalability. ED-600 does not include comparable principles that acknowledge the size and complexity of components.

This could mean that ED-600 needs application material for scaling up for audits of very large and complex groups.

- 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?**

Due to the new concept of ED- 600 also the definition of the component has been adapted. We appreciate this point of view with higher focus on an auditor point of view. However, we do see also problems due to the structure (centralization/decentralization) of groups in practice. It will depend on the group’s organization rather than on the auditor view. The group engagement team is than responsible to define the components and also the risk assessment has to be performed on group level, with the problems described above.

From our experience in Austria, in the most cases a component will to be a legal entity due to local regulatory practice. We believe that this is the case in most of the engagements and we do not understand why this is unquoted. Therefore, we would appreciate to add this to the definition of a component.

Additional problems may arise in respect of the responsibility to sign the representation letter for functions or activity, as there might not be a clear management responsibility. Therefore, there should be guidance in ED-ISA 600.

- 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?**

Overall, we support the enhancements to the requirements and the application material. In the application material there is now detailed guidance in ED-600.A29 on how to deal with information restrictions for certain cases. These examples help to address this matter accordingly. On the other hand, there might be a contradiction with ED-600.42 and access to information and management may be particularly challenging in case of joint ventures and associates.

- 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 are concerned that the risk-based approach to group audits may not result in appropriate risk assessments. It may even lead to more procedures on group level without improving audit quality.

It has implications for the extent of involvement of component auditors and there is a risk that some risks of material misstatement will be missed. The involvement of component auditors in the risk assessment process is vital as component auditors might be aware of local risks which are not known by the group engagement team. It would be helpful to emphasize the need for sufficient local knowledge that may be needed to better understand the entity and its operating environment and to avoid the risk that component auditors may focus on the assigned work rather than identifying and assessing risks at the component level.

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

Yes, we support the additional application material. It is clear and appropriate. On the other hand, and it is not our local experience, that group auditors have been placing undue reliance on group-wide controls as stated in para 71 of the Explanatory Memorandum.

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?

The relationship between group materiality and performance materiality on component level is one of the areas where more guidance is needed, especially how performance materiality is calculated as ISA 320 is also silent on this matter.

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 agree with the specific matters for documentation listed in paragraph 57 of ED-600 and do not see need for additions. However, the new requirement could result in quite extensive additional documentation, e.g. the documentation of the (planned) direction, supervision and review of all components.

(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?

We agree with the application material presented.

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

No comments.

Request for General Comments

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.

The effective date of ED-600 must be after the effective date of ISA 315 revised. The application and implementation of this ISA must be effected in practice and that the experience in implementation can be leveraged for group audits.

