

October 2, 2020

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017  
U.S.A.

Dear Mr. Botha,

**Re: IAASB Exposure Draft, Proposed ISA 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the work of Component Auditors)**

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the proposed International Standard on Auditing 600 (Revised), *Special Considerations - Audits of Group Financial Statements (Including the work of Component Auditors)* (ED-600).

Given the complexities of conducting a group audit, we undertook field testing of ED-600 to better understand how group engagement teams may interpret the requirements and the practical implications of the proposals. This feedback along with the virtual consultations held with Canadian stakeholders has informed the views stated in this letter. A summary of the groups consulted during the Canadian consultations on ED-600 and further details of the field testing is included in APPENDIX I.

In our response, “stakeholders” refers to Canadian stakeholders who provided us with input and “we” refers to the AASB.

Our comments are set out under the following main headings:

- A. **OVERALL COMMENTS;** and
- B. **RESPONSES TO SPECIFIC QUESTIONS**

We hope that these comments will be useful to the IAASB in determining the appropriate next steps in finalizing the standard. If you have any questions or require additional information, please contact me at [kcharbonneau@asbcanada.ca](mailto:kcharbonneau@asbcanada.ca) or Birender Gill at [bgill@asbcanada.ca](mailto:bgill@asbcanada.ca).

Yours very truly,



Ken Charbonneau FCPA, FCA, ICD.D  
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members  
Julie Corden, CPA, CA, IAASB Member  
Eric Turner, CPA, CA, IAASB Member

## **A. OVERALL COMMENTS**

We are pleased with how the IAASB developed ED-600 after determining the foundational principles of conducting a risk-based audit. We believe that developing ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*; and the proposed quality management standards were an important first step to building ED-600.

Overall, we support the proposed changes and believe they clarify many of the issues raised by stakeholders regarding extant ISA 600. Stakeholders were particularly supportive of the direction of ED-600 with regards to:

- the linkage to ISA 315 (Revised) in planning and performing a group audit using the risk-based approach;
- the clarity regarding the responsibilities of the Group Engagement Team (GET), including involvement in the work of a Component Auditor (CA);
- the on-going two-way communication required between the GET and the CA throughout the audit; and
- addressing access restrictions when documenting the group audit.

In addition, stakeholders found the practical examples provided throughout ED-600 beneficial in understanding how to apply the standard to different group audit circumstances.

However, we have identified the following areas of ED-600 where we think clarity and guidance are required:

### **1) Using audit evidence from an audit performed for another purpose (paragraph 42)**

We believe paragraph 42 does not fully address the complex issues related to using audit evidence from an audit performed for another purpose. This topic needs to be addressed comprehensively in the standard to guide practitioners about the appropriate use of audit evidence obtained from an audit performed for another purpose and to identify further audit procedures the GET may need to perform. Please see our response to Q8(b) for further details.

### **2) Clarity regarding risk assessment and further audit procedures**

- **When to involve a CA in risk assessment procedures and what risk assessment procedures to perform (paragraph 25).**

Please see our response to Q8 for further details.

- **When it is appropriate to conduct each of the “further audit procedures” listed in paragraph A97, with examples.**

Please see our response to Q8(a) for further details.

### 3) Implementation guidance for several key areas, such as

- Areas of the group audit where professional skepticism may need to be heightened and how to apply professional skepticism in a group audit. Please see our response to Q3 for further details;
- Examples of audit scenarios and whether they are in-scope of ED-600. Please see our response to Q4 for further details;
- When it is appropriate to assign risk assessment procedures to a CA and what those procedures may entail. Please see our response to Q8 for further details; and
- Determining aggregation risk and setting component performance materiality. Please see our response to Q10 for further details.

Details on the above areas and our recommendations are set out in our responses to the ED-600 questions, which are provided in Section B below.

## ***B. RESPONSES TO SPECIFIC QUESTIONS***

### **Overall Questions**

#### **Links to other standards:**

#### **Q1. (a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?**

ED-600 provides appropriate linkages to other standards and clarifies how the requirements would apply in a group audit, other than the linkages to ISA 315. As detailed in our responses to Questions 8 and 8(a), we believe further clarity is needed on how a GET applies the requirements of ISA 315 in a group audit. Stakeholders found the linkages to standards (other than ISA 315) and the related guidance and examples provided in the application material, such as A9, A19, and A39, appropriately outline the unique challenges that may be present in a group audit and explain how the requirements can be addressed.

#### **Q1. (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 believe ED-600 appropriately addresses the special considerations for conducting a group audit. However, there are some areas where further clarification is required, which are detailed in our responses to questions 3, 6, 7, 8, 8(a), and 8(b).

**Q2. 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?**

We support the structure of the standard and the placement of materials related to the CA in the sub-sections. Stakeholders found this structure easy to follow. This structure may help to direct the CA to guidance applicable to their work and facilitate their understanding of requests from the GET.

**Q3. 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 believe paragraph 5 appropriately explains the concept of professional skepticism and paragraph A9 provides one example of how professional skepticism is exercised in a group audit. However due to the complexity of some group audits and the large number of engagement team members involved across multiple jurisdictions, further examples of how practitioners can apply professional skepticism in a group audit would be useful. These examples could highlight how the GET may need to exercise heightened professional skepticism when reviewing CA documentation based on the GET's understanding of cultural differences, consideration of international measures such as the corruption perception index that may indicate elevated risks for the group audit, and risks and issues related to emerging markets. Examples of other areas where professional skepticism may need to be heightened could be included, such as:

- Understanding how cash flows within the group are processed;
- Understanding transfer pricing arrangements; and
- Confirming cash balances in foreign jurisdictions.

In addition, as outlined in our response to question 8(b), the suggested revision to application paragraph A116 could also enhance the GET's application of professional skepticism in the group audit.

### **Specific Questions**

**Q4. 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).**

While we support the use of the consolidation process to determine whether group financial statements are prepared, we received many questions from stakeholders concerning the scope of ED-600. Due to the complexity of financial reporting systems and the variability in how financial data can be aggregated, analyzed and presented, it

can be difficult to determine whether the financial statements have been prepared through a consolidation process.

Stakeholders raised questions regarding whether various audit scenarios, such as a group audit that includes equity investments or an audit of a fund of funds, would be within the scope of ED-600. Implementation guidance to assist practitioners in understanding the change in the scope of the standard will be essential to providing this clarity. The implementation guidance could outline how different audit scenarios are in-scope or out-of-scope of ED-600. This implementation guidance could include how ED-600 would be operationalized for a group audit that includes an equity investment, including when an auditor's report has been issued for statutory, regulatory or other reasons on the financial information of the equity investment.

In addition, we believe it is important for the IAASB to emphasize in the basis for conclusions (BFC) how the treatment of multi-location audits has changed from the extant standard. Clarification of whether multi-location audits should be within the scope of ED-600 was raised as a key issue to be addressed by this project. The BFC should outline the IAASB's conclusion on this issue.

**Q5. 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 ED-600 is scalable to groups of different sizes. ED-600 was field tested on 11 group audits, ranging from a simple group audit with one component, to the group audit for a large government entity with 23 components and no significant issues were identified regarding scalability.

**Q6. 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 support the approach of the 'auditor view' for components and believe this allows for greater flexibility in planning the group audit. However, we suggest the following changes.

Practicality of using the Auditor's view

When the auditor's view is different from how management analyzes financial information, the GET must consider whether financial information based on the auditor's view will be available and whether management will be able to respond to audit queries. Application material is needed to remind the practitioner to consider the practicality of using the auditor's view and the availability of financial information. The

GET should also be able to identify which management (group or component level) can respond to their information needs.

#### Recognizing sub-groups

The application material related to the definition of component does not recognize that the component may also be a group. More complex groups can contain "groups within groups". The term "sub-group" is used in A3 to describe an entity or business unit, however ED-600 should more clearly recognize that a component may be a group and a group audit may be performed at the component level. In addition, it is unclear how the requirements of ED-600 would be applied by the GET for a component that is a group audit. For example, to what extent is the GET required to be involved in decisions made by the CA in auditing the group at the component level. Further guidance on these matters should be provided in application material.

- Q7. 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?**

While we support the enhanced requirements related to identifying access restrictions, we believe some of the requirements in this section do not belong at the acceptance stage. We recommend the following changes.

#### Paragraph 19

Stakeholders are concerned that the phrase "confirm that the CA will cooperate" implies a written confirmation should be requested from the CA. It may not be possible to obtain such a confirmation at the acceptance and continuance stage if the CA has not been engaged. The level of formality of this confirmation should also be clarified, including whether it must be in writing or can be verbal. It is also not clear whether, and how, this requirement is impacted by factors such as previous experience with or knowledge of the component auditor. We suggest this requirement be revised.

#### Paragraphs 20 to 23

We believe paragraphs 20 to 23 should not be included under the heading *Acceptance and Continuance*. These requirements should be set out under different headings, consistent with how they are dealt with in other standards, such as ISA 220.

### Paragraph 21(b)

Stakeholders questioned the intent behind the phrase “when information has been provided” in paragraph 21(b). Some stakeholders understood that the GET would be expected to ask the CAs to share any results of inspection reports but need not go further if the CA is unable or unwilling to provide requested information. Other stakeholders were concerned that the GET may be expected to take further steps to obtain this information if the CA does not provide the information, for example by requesting the information from regulators or other regulatory bodies. We doubt that such a requirement could be operationalized because there may be legal restrictions on information being communicated by regulators. We believe that paragraph 21(b) should not be a requirement because the GET may not be able to obtain this information. It is better placed in application material as an example supporting paragraph 21(a).

**Q8. 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?**

Overall, we support the risk-based approach in ED-600. We believe this approach will focus the GET on planning and performing the group audit to address the risks of material misstatement at the group level. However, we believe further clarification or implementation guidance is needed in the following area.

### Determining which components require risk assessment procedures and what those risk assessment procedures should entail

In the extant standard, for a significant component, a response may be to perform an audit of the financial information of the component, which is generally viewed as implying that a risk assessment using ISA 315(Revised) is performed. Under the risk-based approach in ED-600, the GET uses their professional judgment to determine when to involve a CA in risk assessment procedures and the nature and extent of the risk assessment procedures to assign to a CA. Due to the impact of the risk assessment process on the planning of the group audit, it is critical that the group risk assessment be robust and comprehensive. While paragraph A71 provides some factors that may influence the nature and extent of the risk assessment procedures assigned to a CA, some practitioners were not clear how these factors would influence the GET’s decision. For example, the paragraph does not explain how the nature of the components’ business activities and the group’s system of internal control can influence the GET’s decision regarding when to involve a CA in the risk assessment. Further, when the GET involves a CA in risk assessment procedures, paragraph A71 is unclear as to whether the risk assessment procedures would entail:



- a “full risk assessment” under ISA 315 (Revised) for that component; or
- if it is possible to only perform risk assessment procedures deemed necessary in the circumstances such as obtaining an understanding of relevant controls at the component level or making certain inquiries of component management.

Further clarification of these matters could be provided in paragraph A71 or in implementation guidance.

We recognize that some of these issues may be related to the transition from the extant to the revised standard. However, we believe providing implementation guidance on these topics would assist practitioners in gaining a better understanding of how to conduct a group audit under ED-600 and applying the standard consistently.

**In particular, the IAASB is interested in views about:**

**Q8. (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?**

We support the flexibility provided in ED-600 for the GET to perform risk assessment procedures and involve a CA as necessary. However, we believe the following matters require further consideration.

When it is appropriate to conduct each of the “further audit procedures” listed in paragraph A97, with examples

Stakeholders struggled to understand what is contemplated by the “further audit procedures” outlined in paragraph A97. We recognize that this phrase is aligned with ISA 330, however stakeholders found this phrase difficult to apply in the context of a group audit. They struggled to identify when it may be appropriate to have the CA conduct further audit procedures under each of the three approaches identified in paragraph A97. Practitioners also asked for examples of possible procedures under each approach.

Purpose of paragraph 28(b)

Stakeholders are confused about the objective of paragraph 28(b). Some stakeholders believe this paragraph requires the GET to share information regarding any events or conditions that could impact the group entity’s ability to continue as a going concern that are identified by one CA, with all other CAs. However, they are not clear how sharing this information would be relevant to the other CAs. Other stakeholders thought it unlikely that a CA would be able to identify events or conditions that would impact the group entity’s ability to continue as a going concern since they are only involved in auditing one component and would have a limited view of the group entity. We recommend that this requirement be clarified.

**Q8. (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?**

While we support the proposed interactions between the GET and CA throughout the group audit, we have concerns regarding paragraph 42. We also suggest an enhancement to application paragraph A116.

Comprehensively address how a group engagement team may use audit evidence from audits performed for another purpose

Our most substantive concern with ED-600 is related to paragraph 42. We believe paragraph 42 does not fully address the complex issues involved in determining when it may be appropriate to use audit evidence from an audit performed for another purpose, particularly statutory audits, and how a GET may involve a statutory auditor in the group audit. Paragraph 42 appears to be limited to the circumstance when a GET plans to use audit evidence from an audit that has been performed (i.e. completed). We suggest that application material be included to discuss the implications when the group, and other audit are performed concurrently. The audit evidence obtained from a statutory audit can be critical to a group audit, and so there needs to be more discussion of when it may be appropriate to use such audit evidence and how the GET may use this audit evidence in responding to risks of material misstatement in the group financial statements. Some stakeholders are particularly concerned that paragraph 42 may result in the GET placing undue reliance on the audit evidence obtained from a statutory audit.

We believe that the standard needs to address the key principles more comprehensively for the use of audit evidence from an audit performed for another purpose. Some of the key factors that may impact the GET's determination of whether sufficient appropriate evidence can be obtained from such audits include:

- The expected level of cooperation from the other auditor; for example, whether the other auditor is responsive to communications from the GET or whether the other auditor agrees to be engaged in the role of a component auditor;
- Whether the other audit, such as a statutory audit, is completed or underway, which would impact the ability of the GET to direct or be involved in the audit;
- The ability of the GET to hold discussions with the other auditor and the ability, when necessary, to review the other auditor's audit working papers or obtain a summary memo regarding the audit procedures performed;
- The ability of the GET to assess the competence and capabilities of the other auditor, and their compliance with relevant ethical requirements, including those related to independence; and

- How the risks identified for the component impact the use of the audit evidence from the other audit.

We urge the IAASB to explore these issues and add the key principles to ED-600.

Evaluating the further audit procedures required in relation to an audit conducted for another purpose (when the other auditor is not a component auditor)

In paragraph 42(a), the GET is required to evaluate that the audit procedures performed in the other audit are an appropriate response to the assessed risks of material misstatement of the group financial statements. This requirement and the related application material do not describe how the GET evaluates the audit procedures performed in the other audit. In some group audits, the GET may have limited access and contact with the other auditor (e.g., when the statutory auditor is not a component auditor). Clarity is required about the nature and extent of work the GET needs to undertake for the purposes of evaluating whether the audit procedures are an appropriate response to the assessed risks of material misstatement of the group financial statements, for example: whether the GET needs to review the audit file of the other auditor, or whether the audit report for the other audit can be viewed as audit evidence.

Enhance application paragraph A116

Paragraph 50 requires the GET to evaluate the effect on the group audit opinion of any uncorrected misstatements, and paragraph A116 indicates that this may be done by considering whether misstatements communicated by CAs indicate a systemic issue that may affect other components. The application material in paragraph A116 could be enhanced, by indicating that the GET may also request that the CA communicate details for corrected misstatements. The nature of corrected misstatements and the circumstances of their occurrence at one component may indicate that misstatements exist in other components or may indicate a pervasive issue in the group. We believe that this action enhances the application of professional skepticism by the GET.

**Q8. (c) What practical challenges may arise in implementing the risk-based approach?**

Our stakeholders indicated that the following challenges may arise in implementing the risk-based approach:

- There may be pressure from group management to minimize work at components. Group management may question whether an audit of the entire financial information of a component is required. This could impact audit quality if the GET is pressured to “minimize work”.

- The risk-based approach will require increased coordination between the GET and the CA since increased two-way communication is required to plan the group audit. When working with a CA that is outside of the firm or network, it may be challenging to achieve the level of coordination required by ED-600.

In our view, the above matters could be addressed by implementation guidance.

**Q9. Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?**

We support the additional application material, in paragraphs A59-65 and Appendix 3, related to commonality of controls and centralized activities. Stakeholders find the terms “commonality of controls” and “centralized activities” easy to understand and the guidance is helpful in identifying internal controls.

**Q10. 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?**

Overall, we support the materials in ED-600 related to materiality and we support the focus on component performance materiality. However, we recommend that implementation guidance be developed on the following topics.

Setting component performance materiality

While paragraph A75 provides some factors to consider in setting component performance materiality (CPM), there could be divergent practices among practitioners due to the professional judgment involved in setting CPM. While we recognize that firms will need to develop their own methodology for setting CPM, we believe examples of how to set CPM and how this is impacted by aggregation risk would be helpful to drive consistency. These examples should also include guidance on how to set CPM when auditing only one account balance of the component.

Factors influencing aggregation risk

Significant judgment is applied in determining aggregation risk and "reducing aggregation risk to an appropriately low level". Based on the risk tolerances of accounting firms or based on different jurisdictions, there could be significant variation in how aggregation risk is applied. Paragraph A75 recognizes that aggregation risk increases as the number of components in the group increase. Additional factors to consider in determining aggregation risk (such as the complexity of the group entity and its lines of business, degree of groupwide controls, number of jurisdictions it operates in and the degree of financial reporting systems) could be included to support the consistent application of this concept. This information could be included with implementation guidance on how to set CPM.

**Q11. 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 support the enhanced requirements related to documentation. Paragraph 57 clearly identifies what is required by the GET in the group audit file and provides flexibility in how audit evidence is retained in the file.

**(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 support the guidance in paragraphs A129 and A130. These paragraphs provide important guidance of how the GET can address some common access constraints.

**Q12. Are there any other matters you would like to raise in relation to ED-600?**

We did not identify any other matters to raise related to ED-600.

#### **Request for General Comments**

**The IAASB is also seeking comments on the matters set out below:**

**Q13. (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.**

We have not completed a fatal-flaw review of the French translation of ED-600 at this time. However, no matters were brought to our attention regarding the French translation during the exposure period. We plan to complete a fatal-flaw review of the French translation of the final standard during our final approval process.

**Q13. (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.**

Due to the nature of group audits, we believe practitioners will require extra time to develop and implement their approach for conducting group audits under ED-600. ED-600 is impacted by many other standards, including ISA 315 (Revised), and proposed ISQM 1, ISQM 2 and ISA 220, which are effective just prior to or at the same time as the proposed effective date for ED-600. This adds to the difficulty in ensuring the effective application of ED-600. Therefore, we recommend that an appropriate effective date for

the standard would be for financial reporting periods beginning at least 24 months after the approval of the final ISA. Allowing at least 24 months for implementation will provide sufficient time for firms to develop methodologies, train practitioners, and educate component auditors and entities on the new approach.

## APPENDIX I

### Summary of consultations on the AASB's Exposure Draft of CAS 600

#### 1. Groups consulted

- Advisory Group to the AASB on the Group Audit project
- Regulators
- Large Firms
- Practitioners in small and medium-sized practices
- Legislative auditors
- Provincial CPA body working group on assurance and reporting
- Management of a Group Entity

#### 2. Summary of field-testing file characteristics

	CA from same Firm	CA from Network Firm	CA outside of Network	Joint Audit (Public Sector)	Shared Service Center	Equity Investment
File #1	X	X	X		X	X
File #2	X					X
File #3				X		
File #4	X	X	X		X	X
File #5	X				X	
File #6			X			
File #7	X		X			
File #8		X			X	
File #9			X		X	X
File #10	X		X		X	X
File #11	X	X	X		X	X
TOTAL	7	4	7	1	7	6