

**Hunter College Graduate Program
Economics Department
Advanced Auditing Class
ACC 775**

**COMMENT LETTER ON THE PROPOSED INTERNATIONAL STANDARD ON AUDITING 600
(REVISED), SPECIAL CONSIDERATIONS - AUDITS OF GROUP FINANCIAL STATEMENTS
(INCLUDING THE WORK OF COMPONENT AUDITORS), AND PROPOSED CONFORMING AND
CONSEQUENTIAL AMENDMENTS TO OTHER ISAs**

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Principal Drafters

Kenny Lam
Jonathan Ou
Monika Kowalko
Qimei Cao
Sari Partman

Hunter College Advanced Auditing Class

Jose Daniel Abueg
Katijah Basalat
Musammat Begum
John Casella
Jose Chacon
Andrew Chen
Nancy Ciprian
Jessica Gamble
Sam Hsiao
Tony Huang
Maryann Joe Kottathara
Fang Li
HuiQi Liao
Andrea Luciani
Jinjun Mei
Shantel Myricks
Hassan Naeem
Filemon Oktavia
Andres Perez
Raisa Sosa Reyes
Jui Chen Wu
Xin Xu
Yang Zhang
Jacky Zheng

Professor Joseph A. Maffia, CPA

The Advanced Auditing Class has reviewed the above-referenced Exposure Draft and offers the following comments for consideration to the International Auditing and Assurance Standards Board. Our comments can be classified into four main categories: Overall Comments, Specific Comments, Responses to Request for Comments, Comments Regarding Wording and Formatting.

RESPONSES TO 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?

We believe ED-600 has appropriate linkages to other ISAs and with the proposed ISQMs. However, we believe the following linkages would be appropriate:

- Link *ISA 500: Audit Evidence* to paragraphs 42 and 49:

42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall, **in accordance with ISA 500 (para. A26-A30)**, evaluate whether: (Ref: Para. A103–A104)

(a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;

(b) Performance materiality used for that audit is appropriate for the purposes of the group audit; And

(c) Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 20–22. (Ref: Para. A105)

49. In applying ISA 330 **and ISA 500 (para. A1-A25)**, the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115)

- Link *ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements* to paragraph A111:

A111. **In applying ISA 250 (Para. 13-18)**, The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor. The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit).

- Link *ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* to paragraph 54. Paragraph 54 references paragraph A120 which provides a linkage to the ISA but we believe adding a linkage to paragraph 54 would be useful for quick reference:

54. **If In applying ISA 240 (Para. 40)**, if fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 44 (f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate

level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)

- Link *ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* to paragraph A80:

A80. ~~The auditor~~ **In applying ISA 240 (Para. 25), the auditor** is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Link *ISA 705: Modifications to the Opinion in the Independent Auditor's Report* to paragraph A118:

A118. ~~When~~ **In applying ISA 705, when** the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.

1. With respect to the linkages to other standards:

(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 agree that ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

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?

We believe the placement of sub-sections throughout ED-600 helped clarify the roles and responsibilities of the group engagement team and the component auditors respectively. Adding the subsections provided clarity to the extra considerations needed when component auditors are involved.

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 believe the ED-600 appropriately reinforces the exercise of professional skepticism through paragraph A9.

RESPONSES TO 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).

We support the ED-600 definition of group financial statements, including the linkage to a consolidation process.

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 ED-600 is scalable to groups of different sizes and complexities.

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 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 in the ED-600. The ED-600 is focused on audits of group financial statements, which provides clarified standards for component auditors in group audits. Therefore, group auditors’ perspectives are important and considerable when revising the ED-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?

We believe the enhancements to the requirements and application material and, in particular, which ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions. The ED-600 improves the clarity and understandability of the work of component auditors in group audits. Also, the ED-600 assists in supporting professional skepticism for group engagement teams. The enhancements of ED-600 provide necessary input in revisions to those standards addressing foundational issues and requirements that are relevant to group audits.

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?

We believe the respective responsibilities of the group engagement team and component auditors are clear and appropriate in the ED-600.

(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?

We believe that the ED-600 is clear and appropriate for the interactions between the group engagement team and component auditors.

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

We do not see challenges that may arise in implementing the risk-based approach.

9. 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 on the commonality of controls and centralized activities, and it is clear and appropriate.

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?

Yes, the added focus on component performance materiality gives auditors a guidance on implementing performance materiality threshold.

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 believe the matters documented in paragraph 57 of ED-600 are clear and concise as it relates to the documentation requirements for review of the component auditor work by the group audit.

(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?

The application material in Paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation considerations when access to component auditor documentation is restricted is clear and concise, providing an overview of different steps the group auditor can take in order to get comfortable with the work performed by the component auditor.

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

- We believe there could be greater clarity on the definition of a component auditor. The Auditing Standard Board's definition of a component auditor in AU-C 600 (paragraph .11) states "A component auditor may be part of the group engagement partner's firm, a network firm of the group engagement partner's firm, or another firm." If the IAASB has the same definition of a component auditor, it is not immediately clear if a component auditor can come from the group engagement partner's firm. Paragraph A13 of ED-600 states that "The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider" but it is unclear if a component auditor can come from the group engagement partner's firm as this definition refers to the engagement team in a broad sense. We believe that adding to the definition a reference to specifically where the component auditor may come from would provide greater clarity. Considering that group audits can span across different geographic locations, we believe that convergence between the ASB and the IAASB on the definition of a component auditor is important.
- Paragraph A13 states that "the engagement team includes members of the group engagement team and component auditors". We believe that adding a definition for "engagement team" to the Definitions section in paragraph 9 of this Exposure Draft would provide clarity on the distinction between "group engagement team" and "engagement team".

RESPONSES TO REQUESTS FOR 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.**

We have no comment on the potential translation issues after 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.

We believe that a maximum of 18 months to understand the revisions of ISA 600 and apply the revisions to audits (where necessary) is a sufficient period of time.

COMMENTS REGARDING WORDING AND FORMATTING

Adding punctuation to coordinate conjunction.

A51. In addition, ~~the nature timing~~ **the nature, timing** and extent of direction and supervision and review of the component auditor’s work may be tailored taking into account the nature and circumstances of the engagement and, for example:

A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁴⁵ ~~In a group audit there~~ **In a group audit, there** may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

Changed wording for clarity. It is unclear whether “group entities” refers to the group as a whole or entities within a group.

A66. ~~Group entities or business units~~ **Entities or business units within a group** may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group’s financial statements. In such circumstances, an understanding of group management’s financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group engagement team to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Changed wording to include component management for clarity. Component management may also be able to provide information in these areas. Additionally, if a component represents a large portion of a group, its ability to continue as a going concern could affect the group’s ability to continue as a going concern.

A70. The discussions provide an opportunity to:

...

- Discuss any events or conditions identified by group management, **component management**, or the engagement team, that may cast significant doubt on the group’s ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management **or component management**, and any other related parties of which the engagement team is aware.

Changed bullet structure for clarity. Changed sentence structure to stay consistent with paragraph A21

A22. In the case of a new engagement, the group engagement team’s understanding of the matters in paragraph A21 may be obtained from:

- Information provided by group management; **and**
- ~~Communication with group management;~~
- ~~Communication with those charged with governance of the group; and~~

- ~~Where applicable, communication with component management or the previous group engagement team:~~

- **Communication with:**

- **Those charged with governance of the group, group management**
- **Where applicable, those charged with governance of the component, component management, or the previous group engagement team.**

Changed the wording to maintain consistency.

A71.

...

Previous experience with ~~the component auditor~~ **component auditors** may also influence the group engagement team's decision whether to involve them in performing risk assessment procedures. When risk assessment procedures are assigned to component auditors, the group engagement team remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

A80. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.⁵⁰ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risks that the group financial statements are materially misstated as a result of fraud.
- Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or classes of transactions, account balances, or for which a risk of fraud is higher.
- Whether there are particular components for which the risks of material misstatement due to fraud is higher.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's inquiry whether they ~~have knowledge~~ **of know** any actual, suspected, or alleged fraud affecting a component or the group.

A89. The group engagement team may have identified a significant class of transactions, ~~account balance~~ **account balances** or ~~disclosure~~ **disclosures** in the group financial statements that comprises classes of transactions, account balances or disclosures at many entities and business units, none of which individually result in a risk of material misstatement at the group financial statement level. To obtain sufficient appropriate audit evidence, audit procedures on these classes of transactions, account balances or disclosures may be performed centrally if they are homogeneous, subject to common controls and access to appropriate information can be obtained. If this is not the case, the engagement team may need to perform audit procedures at selected components.

Changed the formatting to maintain consistency within the exposure draft.

A93. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group engagement team may need to revise the audit plan. Possible revisions to the audit plan may include:

- Requesting additional substantive procedures to be performed at certain components- ;
- Identifying and testing the operating effectiveness of other relevant controls that are designed

and implemented effectively; ; **and**

- Increasing the number of components selected for further audit procedures.

A109. The form of communication may be affected by such factors as:

- The significance, complexity or urgency of the matter; ; **and**
- Whether the matter will be communicated to group management and those charged with governance of the group.

A121. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation; ;
- Plans for abandonment of material operating assets; ;
- Subsequent events; ; **and**
- Significant legal agreements.

Updated wording for clarity.

A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). Typically, the processing of transactions and related controls at a shared service center ~~operate~~ **operates** in the same way for all transactions regardless of the entity or business unit (e.g., the processes, risks, and controls for all transactions, regardless of the source of the transaction, are the same). In such cases, it may be appropriate to identify the controls and evaluate the design and ~~determine implementation~~ **determine the implementation** of the controls, and if applicable test operating effectiveness, as a single population.

A94. ~~The further~~ **Further** audit procedures on the consolidation, including sub-consolidations, may include:

- Determining that the journal entries necessary are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

A128. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group engagement team in documenting the direction and supervision of component auditors and the review of their work. For example, the firm may have developed an electronic audit tool that may be used to facilitate communications between the group engagement team and component auditors, and such tool ~~also~~ may also be used for audit documentation.

Changed the wording for clarity because the use of "intra-group" is redundant.

A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been

included in the group financial statements were appropriately included;

- Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Checking the reconciliation and elimination of intra-group transactions ~~and~~, unrealized profits, and ~~intra-group~~ account balances.

Changed the wording for clarity because the use of “group entity’s” is redundant. A group is already defined in paragraph 9(f) as “A reporting entity for which group financial statements are prepared.”

28(b) Communicate with component auditors any events or conditions identified by the ~~component auditor~~ **component auditors** that may cast significant doubt on the ~~group entity’s~~ **group’s** ability to continue as a going concern.

41. The group engagement team shall request the ~~component auditor~~ **component auditors** to communicate on a timely basis:

- (a) Related parties not previously identified by group management or the group engagement team.
- (b) Any events or conditions that may cast significant doubt on the ~~group entity’s~~ **group’s** ability to continue as a going concern.

Removed wording because of redundancies.

A12. As noted in paragraph A4, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed. Although the group engagement team may combine certain entities or business units for purposes of planning and performing the group audit, the group engagement team’s consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group. ~~In other words, the group engagement team’s view of components for the group audit and how entities or business units may be combined to facilitate the performance of the group audit considers all of the entities and business units that are included in the consolidation process.~~

A85. In responding to the assessed risks of material misstatement of the group financial statements, different approaches are available to the group engagement team to obtain audit evidence on one or more classes of transactions, account balances or disclosures across the various components. Paragraphs A86 to A93 provide guidance to assist the group engagement team in determining an appropriate approach, or combination of approaches, for the engagement team to obtain audit evidence. Paragraphs A96 to A101 provide guidance on the options available to the group engagement team for assigning further audit procedures to component auditors to obtain audit evidence on the financial information of components for ~~the purpose of~~ the group financial statements.

Removed wording because of redundancy. Restrictions to access to information is given as an example in the next paragraph.

A24. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group engagement team’s jurisdiction because of cultural and translation issues and different laws or regulations ~~(e.g., regulations restricting access to data).~~

Changed the wording to maintain consistency.

18. In applying proposed ISA 220 (Revised),¹⁰ the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the ~~component auditor~~ **component auditors** to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A34)

19. As part of the evaluation in paragraph 18, the group engagement team shall request the ~~component auditor~~ **component auditors** to confirm that the ~~component auditor~~ **component auditors** will cooperate with the group engagement team. (Ref: Para. A35)

27. In applying ISA 550,15 the group engagement team shall communicate with the ~~component auditor~~ **component auditors** any related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that are relevant to the work of the ~~component auditor~~ **component auditors**. (Ref: Para. A72)

28(a). Communicate with component auditors any events or conditions identified by group management or the group engagement team; that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the ~~component auditor~~ **component auditors**.

42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall evaluate whether: (Ref: Para. A103–A104)

- (a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;
- (b) Performance materiality used for that audit is appropriate for the purposes of the group audit;
And
- (c) Other relevant requirements in this ISA have been met with respect to the use of the work of ~~a component auditor~~ **component auditors**, including the requirements in paragraphs 20–22. (Ref: Para. A105)

44. The group engagement team shall request the ~~component auditor~~ **component auditors** to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include:

- (a) Identification of the financial information on which the ~~component auditor has~~ **component auditors have** been requested to perform audit procedures;
- (b) Information on instances of non-compliance with laws or regulations;
- (c) Uncorrected misstatements of the financial information on which the ~~component auditor~~ **component auditors** performed further audit procedures and that are above the threshold communicated by the group engagement team in accordance with paragraph 30;
- (d) Indicators of possible management bias;
- (e) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
- (f) Other significant matters that the ~~component auditor~~ **component auditors** communicated or ~~expects~~ **expect** to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (Ref: Para. A112)
- (g) Any other matters that may be relevant to the group audit, or that the ~~component auditor~~ **component auditors** ~~wishes~~ **wish** to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and
- (h) The ~~component auditor's~~ **component auditors'** overall findings, conclusions or opinion.

45. The group engagement team shall:

- (a) Discuss significant matters arising from the communications with the ~~component auditor~~ **component auditors**, component management or group management, as appropriate;

51. If the group engagement team concludes that the work of the ~~component auditor~~ **component auditors** is insufficient, the group engagement team shall determine what additional audit procedures are to be performed, and whether they are to be performed by ~~a component auditor~~ **the component auditors** or by the group engagement team.

52. The auditor's report on the group financial statements shall not refer to ~~a component auditor~~ **any component auditors**, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A117–A118)

54. If fraud has been identified by the group engagement team or brought to its attention by ~~a component auditor~~ **component auditors** (see paragraph 44 (f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)

55. ~~A component auditor~~ **Component auditors** may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group engagement team shall request group management to inform management of the entity or business unit of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the ~~component auditor~~ **component auditors** not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A121)

A96. Component auditors may have a more in-depth knowledge of the components than the group engagement team, and therefore the group engagement team may need the assistance of the ~~component auditor~~ **component auditors** to determine the nature, timing and extent of further audit procedures to be performed on the financial information of the component.

A98. The group engagement team may determine that audit evidence needs to be obtained on all or a significant proportion of a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team may determine that it is more effective to request that the ~~component auditor~~ **component auditors** design and perform further audit procedures on the entire financial information of the component. In such circumstances, the ~~component auditor~~ **component auditors** may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A99. In certain circumstances, the group engagement team may determine that it is more effective to request that the ~~component auditor~~ **component auditors** ~~designs~~ design and ~~performs~~ perform further audit procedures related to the entire financial information of a component. This may particularly be the case when there is a risk of material misstatement of the group financial statements due to the existence of events or conditions at the component:

- That may affect the group auditor's response to risks of material misstatement relating to the valuation of the assets and liabilities of a component included in the group financial statements; or
- That may be relevant to group management's assessment of the group's ability to continue as a going concern.

A100. The group engagement team may determine that audit evidence needs to be obtained on one or more classes of transactions, account balances; or disclosures of the financial information of a component. In such circumstances, the group engagement team may request that the ~~component auditor~~ **component auditors** ~~perform~~ perform further audit procedures on the classes of transactions, account balances or disclosures and **the group engagement team** may assign the design and performance of further audit procedures to the ~~component auditor~~ **component auditors**. The ~~component auditor~~ **component auditors** may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A108. The group engagement team's requirements are often communicated in a set of instructions and may be supplemented by direct communication with the ~~component auditor~~ **component auditors**, for example, through a telephone call or videoconference. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the ~~component auditor~~ **component auditors**, however, may not necessarily be in writing. For example, the group engagement team may arrange a meeting, in person or remotely, with the ~~component auditor~~ **component auditors** to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply.

A110. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the ~~component auditor~~ **component auditors** and the action expected to be taken by the ~~component auditor~~ **component auditors**. For example, communications regarding planning matters may often be made early in the audit engagement and, for a new engagement, may be made as part of agreeing the terms of the engagement.

A111. The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the ~~component auditor~~ **component auditors**.⁵⁴ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit).

A118. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to the ~~component auditor~~ **component auditors**, unless such a reference is necessary for an adequate explanation of the circumstances.

A124. In accordance with ISA 230,60 the 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 **parts** 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~~ **component auditors** 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.

A127. The determination of the nature and extent of the review of ~~component auditor~~ **component auditor's** documentation by the group engagement team is also a matter of professional judgment. Paragraph A113 includes factors that may affect the determination of the extent of the review of audit documentation of component auditors.

A129. Audit documentation for an audit of group financial statements may present some additional complexities or challenges depending on the structure of the group. This may be the case, for example, when the group has entities or business units in a number of different jurisdictions with varying laws or regulations that may limit the ability of the group engagement team to access the ~~component auditor~~ **component auditor's** documentation or restrict the ~~component auditor~~ **component auditors** from providing documentation outside of its jurisdiction.

A130. In these circumstances, the group engagement team is nonetheless required to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. In addition, when the group engagement team determines that it may be appropriate to include relevant parts of the ~~component auditor~~ **component auditor's** documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the ~~component auditor~~ **component auditors** on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the ~~component auditor~~ **component auditors** with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.

Rearranged the paragraph into bullet points for clarity and changed the wording to maintain consistency.

A105. Other relevant requirements in this ISA with respect to the use of the work of ~~a component auditor~~ **component auditors** as described in paragraph 42(c), may include:

- ~~the~~ **The** requirements in the sections on understanding the group and its environment; ; **and**
- ~~the~~ **The** applicable financial reporting framework and the group's system of internal control, materiality, identifying and assessing the risks of material misstatement, responding to the assessed risks of material misstatement and two-way communication between the group engagement team and the ~~component auditor~~ **component auditors**.

Changed the formatting and wording to maintain consistency within the exposure draft.

9(j). Group engagement team – The group engagement partner and other members of the engagement team who are responsible for:

- (i) Establishing the overall group audit strategy and audit plan;
- (ii) Directing and supervising component auditors and reviewing their work; **and**
- (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

29. In applying ISA 320 and ISA 450, when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group engagement team shall determine:

- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality; ; **and** (Ref: Para. A73–A76)
- (b) The threshold above which misstatements identified in component financial information are to be communicated to the group engagement team. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A77)

41. The group engagement team shall request the component auditor to communicate on a timely basis:

- (a) Related parties not previously identified by group management or the group engagement team; **and**
- (b) Any events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern.

56. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised)²⁴ and other ISAs: (Ref: Para. A122)

- (a) An overview of the work to be performed at the entities and business units comprising the group and the nature of the group engagement team's planned involvement in the work to be performed by component auditors; (Ref: Para. A123)
- (b) Instances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern;
- (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information; **and**
- (d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others where the fraud resulted in a material misstatement of the group financial statements.

A107. Factors that may also contribute to effective two-way communication include:

- A mutual understanding of relevant issues and the expected actions arising from the communication process; ;
- The manner in which communications will be made. For example, it may be better to discuss certain matters in person or by telephone or videoconference rather than by exchanging emails; ;
- The person(s) in the group engagement team who will communicate regarding particular matters; ;
- The group engagement team's expectations that communication will be two-way, and that the ~~component auditor~~ **component auditors** are expected to communicate timely with the group engagement team matters they consider relevant to the group audit; ; **and**
- The process for taking action and reporting back on matters communicated by the group engagement team.

A104. In addition to the factors in paragraph 42, factors that may affect the group engagement team's decision whether to use the audit evidence from an audit that has already been performed due to statutory, regulatory or other reasons to provide audit evidence for the group audit may include the following:

- Differences in the financial reporting framework applied in preparing the financial statements of the entity or business unit and that applied in preparing the group financial statements; ;
- Differences in the auditing and other standards applied by the ~~component auditor~~ **component auditors** and those applied in the audit of the group financial statements; ; **or**
- Differences in the financial reporting period-end between the financial statements of the entity or business unit and the financial statements of the group.

A113. The nature, timing and extent of the review of the component auditor's audit documentation may vary depending on the circumstances and may be affected by:

- ~~(a)~~• The identified risks of material misstatement of the group financial statements, including the degree to which the ~~component auditor~~ **component auditors** were involved in risk assessment procedures and in the identification and assessment of those risks;
- ~~(b)~~• The group engagement team's understanding of the ~~component auditor~~ **component auditors**, including the competence and ~~capabilities~~ **capability** of the ~~component auditor~~ **component auditors**;
- ~~(c)~~• The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's policies or procedures for review of audit documentation; and
- ~~(d)~~• Limitations on the group engagement team's ability to access the component auditor's audit documentation.

A114. The group engagement team may:

- (a) • Request a component auditor to perform subsequent events procedures to assist the group engagement team to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- (b) • Perform procedures to cover the period between the date of communication of subsequent events by the ~~component auditor~~ **component auditors** and the date of the auditor's report on the group financial statements.

A126. When component auditors are involved in the group audit, the group engagement team's documentation of its involvement in the work of component auditors may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA- ;
- The rationale for the selection of visits to ~~component auditor~~ **component auditor's** sites, attendees at meetings and the nature of the matters discussed- ;
- Matters discussed in teleconferences or videoconferences with component auditors or component management- ;
- The rationale for the group engagement team's determination of ~~component auditor~~ **component auditor's** audit documentation selected for review- ; **and**
- Changes in the planned nature and extent of involvement with component auditors, and the reasons why.

Appendix 1

Change the word that to whether instead.

2. Component auditors can be, and often are, involved in all phases of the group audit. The determination of whether, and the extent to which, component auditors are to be involved in the group audit engagement is a matter of professional judgment for the group engagement team and begins with the acceptance and continuance of the group audit engagement (see paragraph 13). A preliminary understanding of the group and its environment, including the matters described in paragraph 24 and expectations of the locations, functions or activities within the group at which audit evidence is to be obtained, provides a foundation for the group engagement partner's determination **whether that** sufficient and appropriate resources to perform the group audit engagement can be assigned. This determination relates to, for example:

- The nature of resources, such as the use of appropriately experienced engagement team members. For example, component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including language, culture, business practices, and local laws and regulations) than the group engagement team;
- The amount and location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations; or
- Access arrangements. For example, when the group engagement team's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.

Change with respect to requirements relating to (including some or all of the following). In addition, change some to one or more of the following.

4. The nature, timing and extent of the involvement of component auditors will vary depending on the circumstances of the engagement. The group engagement team may determine that it is appropriate to involve component auditors to assist the group engagement team in fulfilling its responsibilities with respect to the requirements in this ISA, including ~~relating to some or all~~ **one or more** of the following:

- Understanding the group and its environment by designing and performing risk assessment procedures (see paragraph 25);
- Identifying and assessing the risks of material misstatement of the group financial statements (see paragraph 32); and
- Designing and performing further audit procedures (see paragraph 37).

Change the period after the first sentence, it should be after the parenthesis.

6. For some components, the group engagement team may determine that it is appropriate for the component auditor to be involved in all phases of the group audit regarding the work to be performed in relation to that component—(e.g., for a component for which the group engagement team does not have the same in-depth knowledge or experience as the component auditor with respect to the component’s business activities). The component auditor’s involvement may include:

- Designing and performing risk assessment procedures to provide information relating to the component for purposes of identifying and assessing the risks of material misstatement of the group financial statements; and
- Designing and performing further audit procedures in response to the assessed risks of material misstatement of the group financial statements.

Remove the comma after proportion of.

7. For example, as described in paragraph A98, the group engagement team may determine that audit evidence needs to be obtained on all, or a significant proportion of; a component’s financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, a component auditor’s greater experience and knowledge of the component’s business may mean that the component auditor is better placed to design and perform the further audit procedures.

Appendix 3

Remove the underlined part of the sentence.

3. The group engagement team’s understanding of the group’s risk assessment process may include matters such as ~~group management’s risk assessment process, that is,~~ the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.