



02 October 2020

Thomas Seidenstein
Chairman
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue
New York
10017 USA

Dear Thomas

Comments on the IAASB's Proposed International Standards on Auditing 600(R) (ISA 600)

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

The Auditor General South Africa (AGSA) welcomes and supports the IAASB'S revision of the International Standard on Auditing 600 (ISA 600) to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs. We believe that these enhanced and new requirements will enhance the audit quality in audits of group financial statements.

Our response has been prepared by the Audit Research and Development Business Unit of the Auditor General of South Africa's office. Our comments are presented under the following sections:

1. Overall Questions;
2. Request for specific comments and responses; and
3. General comments

If further clarity is required on any of our comments, kindly e-mail us at ardsupport@agsa.co.za. Alternatively, phone us directly on +27 12 422 9819.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Nhlanhla Ngaka', written over a horizontal line.

Nhlanhla Ngaka (CA) SA

Deputy Business Executive: Audit Research and Development

Overall Questions

Question 1

With respect to the linkages to other standards:

- a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?
- b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

a) Yes, the linkages to ISA standards is appropriate to emphasise the importance and not to separate ISA 600 from other standards.

b) The ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs and no other special considerations for a group audit where identified.

Question 2

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

Yes, this will assist in highlighting the responsibilities of the component auditors specifically.

Question 3

Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

Yes, this enables the group auditor to conduct the audit in a manner that is applicable or specific to the auditee.

Request for specific comments and responses

Question 4

Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).

The scope and applicability is very well detailed. The definition of group financial statements is also clear and can sufficiently be understood with no difficulties.

Question 5

Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?

Consider including a definition of a business unit, branch or division. This would assist the auditors of small auditees in determining whether certain locations, functions, activities or a combination is a component or not. The standard should only apply when the division has prepared their own set of financial statements as per the accounting policies of the group.

Question 6

Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?

The definition in par 9 makes reference to a location, function and activity whereas in par 3 there is specific mention of entities or business units which is not included in the definition. The definition in par 9 (b) seems to be inconsistent with paragraph 3 which clearly details how the group may be structured and includes a collective reference being " entities or business units" however this is not used in the definition of a component. However, on the positive side these inclusions provide more explicit guidance to when a component will apply and is one of the areas where scalability is applied in that a component can exist even if there are no component auditors

Question 7

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

In terms of paragraph A29 (bullet no.2) of ED-600: "*if the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, discussion with them regarding the non-controlled entity and its operations and financial status may be a useful source of information*"

Discussing with group management's representatives who are on the executive board or are members of those charged with governance of the non-controlled entity will not result in sufficient appropriate evidence in instances where the group management are restricted from also accessing underlying records supporting the financial statements used by the group management to prepare the financial statements. The discussions would still need to be corroborated with other reliable evidence. Where restrictions are imposed and the component's financial statements are not audited by an independent auditor, the group engagement team will be unable to obtain sufficient appropriate audit evidence.

Question 8

Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:

- a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
- b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?
- c) What practical challenges may arise in implementing the risk-based approach?

The risk based approach will assist the group engagement team to direct the focus of the group audit to the risky areas in order for the component auditors to appropriately and sufficiently respond and reduce the group audit risk to an acceptably low level.

- a) The respective responsibilities of the group engagement team and component auditors are clear and appropriate.
- b) The interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate and

the is sufficient involvement of the group engagement partner and group engagement team.

- c) Where component auditors are used, the timing of the audit performed by the group auditors and component auditors may differ as a result of different reporting timelines for the group and the component entity. More guidance in this regard should be included.

Question 9

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

Yes, this will help with efficiencies in the group audit where commonality of controls and centralised activities exist including deeper understanding of the entity's internal controls, identification of weaknesses/risks and formulating appropriate responses to the risks to lower detection risk. However, the ED-600 does not include whether there are any requirements or responsibilities of the component auditors with regards to commonality of controls and centralised activities.

Question 10

Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?

Yes, the component performance materiality will reduce the aggregation risk to an acceptable level.

Question 11

Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:

- a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
- b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?

- a) The matters described in paragraph 57 of ED-600 are sufficient.
- b) It will be a challenge for the group engagement team to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters that the group engagement team determined to be relevant to be included in the group engagement team's audit file when restricted from accessing the component auditor's audit file. More guidance should be provided on how this should be done. The guidance in this area will assist the auditors in understanding the type of documentation that is expected from them.

Question 12

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

More guidance on entities which are outside the control of the group (e.g. joint venture or associate) and the extent of documentation required should be considered.

General comments

Question 13

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

- a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.
- b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

- a) No issues on the translation is anticipated as we also use the English language in our environment.
- b) Eighteen months is appropriate to adequately understand, plan and then implement the amendments to the standard.