



02 October 2020

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS SPECIFIC COMMENTS LETTER TO EXPOSURE DRAFT, *PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED) – SPECIAL CONSIDERATIONS – AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)*

Introduction

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The Institute’s mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards the Exposure Draft, *Proposed ISA 600 (Revised) –Special Considerations –Audits of Group Financial Statements (Including the Work of Component Auditors)*. We have provided our comments to each specific question as per the exposure draft. Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

Signed electronically

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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?

Response:

ED-600 does make appropriate linkages to other ISAs. Linkage to proposed ISQMs has been noted through the approach taken by using elements identified in ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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

Response:

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, including proposed ISA 220 (revised).

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

Response:

We support the placement of subsections to highlight the requirements when component auditors are involved as it will make easier reference in identifying and following the right procedures 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?**

Response:

The ED-600 appropriately reinforcement the exercise of professional scepticism in relation to an audit of group financial statements as per paragraphs 5 and A9-10 of ED-600.

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).**

Response:

The scope and applicability of the proposed standard is clear. The scope indicates what special considerations are when reference is made to “a group”. This is achieved by making clear distinction through use and definition of “consolidation process”.

Definition of group financial statements is appropriate as the key word is the *consolidation process* which has been properly described at paragraph 11.

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

Response:

The proposed scope of the standard allows ascertainment of a group by the group management or by group engagement team. The group engagement team is therefore allowed to attribute group features to a structure different from that of group management to allow effective and more efficient obtaining of audit evidence. The group engagement team is therefore allowed to apply judgement in groups of difference 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?**

Response:

Component as defined in the proposed standard is not in line with the proposed standard scope and paragraph 11. Paragraph 11 defines consolidation process with reference to entities or business units. Definition of components should therefore apply these wording to avoid ambiguity. What has been used to define components (location, function or activity) would be applied by the group engagement team to determine “business unit” as provide for in the scope of the proposed standard.

We therefore propose for the definition to be revised as follows:

“Component – An entity or business unit determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.”

We agree with the proposal that component determination focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit. This will allow effective planning and application of audit procedures as deemed fit by the group engagement team.

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

Response:

We support the improvement to the requirements and application material with respect to the acceptance and continuance of group audit engagements and we believe that ED 600 is relevant in addressing restrictions on access and ways in which the group engagement team can overcome such restrictions.

- 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?**

Response:

The respective responsibilities of the group engagement team and component auditors as outlined in the proposed standards 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?**

Response:

We believe ED-600 clearly and appropriately describes the expected interactions between the group engagement team and component auditors.

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

Response:

A general challenge with a risk-based approach is lack of uniformity. While one auditor may determine a component based on certain criteria, another auditor may use a different approach to determine components in the group. This will lead to variation in reporting of a single entity and therefore lack of consistency.

General response:

The risk-based approach adopted by the proposed standard is appropriate as it provides the group engagement partner and/or group engagement team with an opportunity to evaluate each engagement on its own merits without being prescriptive. This will allow effective assessment of risks of material misstatements in group as well as appropriate design and performance of appropriate responses to the risks.

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

Response:

We support the additional application material on the commonality of controls and centralized activities.

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

Response:

We support the focus on component performance materiality and the additional application material.

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?

Response:

The documentation requirements of paragraph 57 of ED-600 are appropriate.

- b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team’s audit documentation when access to component auditor documentation is restricted?**

Response:

We 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. However, more consideration should be given to ensuring that the group engagement team document information sufficient to allow an experienced auditor to understand the nature, timing and extent of the work performed by the component auditor.

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

Response:

There are no other matters that we would like to raise in relation to ED-600.

- 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.**

Response:

No comment on the potential translation issues for ED-600.

- b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

Response:

We support the proposed effective date of 18 months after approval of a final ISA with earlier adoption permitted and encouraged.