

October 2, 2020

International Auditing and Assurance Standard Board  
International Federation of Accountants  
585, Fifth Avenue - 14<sup>th</sup> Floor  
New York, NY 10017  
U.S.A.

To the Members of the International Auditing and Assurance Standard Board (IAASB),

You will find attached my Office's comments to the IAASB regarding the *Proposed International Standard on Auditing 600 (Revised), Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) – Exposure draft*.

As a legislative auditor, the Auditor General of the Ville de Montréal assists the City Council in the execution of its governance duties by keeping it updated on the diligent and optimal use of public funds by Municipal Administration.

I thank you for the opportunity provided for us to comment on this Exposure Draft.



Michèle Galipeau, CPA auditeur, CA

Michèle Galipeau, CPA auditor, CA  
Auditor General of the Ville de Montréal

MG/gp

Encl.

## **GENERAL COMMENTS**

We believe that the proposed changes in the Exposure Draft (ED-600) are relevant. More particularly, we are in favour of the revised definition of “component” that takes into account the auditor’s point of view for the purposes of the planning and implementation of the group audit.

However, we are disappointed that the scope of the ED-600 was not modified to include the co-audits. The audit in the public sector frequently includes the co-audits and we notice a lack of standards and guides in the actual standards. This is a concern for our Office especially since the passing of the Quebec’s bill that caused all our financial audit mandates to be co-audit. Since the ED-600 frames the use of work of another auditor, in our opinion, we believe that the scope of application should include co-audits.

## **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 SQMs?

Yes.

(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?

Yes, but for the above-mentioned reasons, we believe that the scope of application of ED-600 should include co-audits instead of the ISA-220 which will be revised only in two years, this will cause a lag of standards.

### **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.

### **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, the requirements and application material of ED-600 adequately reinforce the exercise of professional skepticism in relation to an audit of group financial statements.

## **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 consider that ED-600 is clearer, especially for categorizing what a group audit and a component are. We agree with the definition of group financial statements.

We believe that there will be enforcement difficulties when two accounting firms will be involved in the group audit. Accounting firms respectively have their own methodology that is sometimes different for some aspects. In addition, accounting firms do not generally share the detail of their methodology, which could cause disputes between the group auditor and the components auditor during the mandate. It is to be noted that this problem also occurs during co-audits.

It would be wise to develop application material, guides and implementation tools with examples of good practices.

**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?**

Yes, we believe the proposed standard could be adapted to groups for which the size and degree of complexity vary.

However, for very small entities, the auditor will have to invest more time in the understanding of the process in order to conduct a risk assessment, which would result in additional costs. Therefore, this approach could be more difficult to adapt to very small entities.

**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?**

Yes, we support the revised definition of a component.

**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?**

With respect to the acceptance and continuance of group audit engagements, we agree with the improvements of requirements and application material.

However, we believe that some paragraphs, such as paragraphs 19 and 21, will be difficult to apply when two separate accounting firms or more will be involved in the group audit. For example, it will be difficult even before accepting the engagement, to obtain

confirmation from component auditors that they will collaborate and determine they will have sufficient time to implement audit procedures they were assigned to.

**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?**

Yes, the respective responsibilities of the group engagement team and components 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?**

Requirements are clear, but the application material could be specified.

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

We are in favour of the risk-based approach. Indeed, this approach leaves more room to judgment and theoretically should allow to design and implement more adapted responses.

However, since this approach we leave more flexibility, two accounting firms involved in a group audit could have different risk assessments. In practice, accounting firms will have to put in place mechanisms allowing them to adjust and solve differences of opinion. We suggest adding application material that would give examples of good practices.

Moreover, we are concerned by the fact that some auditors with a greater tolerance to risks could do less audit procedures in situations where required.

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

Yes, we support the additional application material on the commonality of controls and centralized activities. The application material 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, we agree with the emphasis on the materiality level for the component level work.

We also agree with additional application material as for the aggregation risk.

However, we believe these details are not satisfactory. We understand that the intent was to bring additional indications on this concept. Although a definition of the aggregation risk was added, we believe that the goal was not achieved.

Indeed, paragraph A11 of ED-600 specifies that it is particularly important to understand the aggregation risk and to reply in a group audit engagement, without giving more explanation on the application of this concept in keeping with the materiality level.

We believe that the understanding of these concepts and their interrelation are not that simple. In our opinion, the application material should be improved in order to give practical examples.

**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?

Yes, we are in favour of the enhanced requirements and application material of documentation, including linkages to the requirements of ISA 230 standard.

However, we consider that the documentation requirements should also include risks analysis and components identification, skills documentation, independence and the capacities of components auditors.

(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?

Yes.

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

With the exception of co-audits, we have no more questions for ED-600.

**REQUEST FOR GENERAL COMMENTS**

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

(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.

N/A

- (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.

Yes, this would provide a sufficient period to support effective implementation of the ISA.