



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

October 2, 2020

International Auditing and Assurance Standards Board

529 Fifth Avenue
New York, New York 10017
United States of America

Re: Exposure Draft- Proposed International Standard on Auditing 600 (Revised)

Thank you for the opportunity to provide feedback on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

Our response to the specific questions posed in the Exposure Draft is provided below. Responses may be limited to questions of relevance to our Office and legislative audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Lissa Lamarche".

Lissa Lamarche
Assistant Auditor General

cc. Eric Turner, CPA, CA
Director, Auditing and Assurances Standards Board
Auditing and Assurance Standards Board

Question 1:

- A. Yes, we find the proposed standard has appropriate linkages to other ISAs and with the proposed ISQMs.
- B. Yes, appropriate linkages have been established with the fundamental ISAs in important areas such as ethics, acceptance and continuance, involvement of the group engagement partner, resources, materiality, assessing and responding to risk of material misstatement (ROMM), exercise of professional skepticism, communication and documentation.

We believe there are also other special considerations that have not been addressed in ED-600.

- ISA 220 (Revised) paragraph 32 addresses the engagement partner responsibilities related to consultation. It could be useful to have specific guidance and linkages when consultations are required and handled by the component auditor.
- ISA 700 paragraph 39 (c) requires further description of the auditor's responsibilities in the independent auditor's report (IAR) when ISA 600 is applied. A linkage from ISA 600 to ISA 700 would reduce the risk that an engagement team reaching the conclusion that ISA 600 applies fails to appropriately describe their responsibilities in the IAR.
- Materiality, see question 10 for further details.

Question 2:

Yes, we support the placement of sub-sections throughout ISA 600 (Revised) as it facilitates the use and understandability of the standard. However, we have noted that ISA 600 (Revised) paragraph 21 is quite specific to component auditors and therefore could be placed in a sub-section. If requirements are not consistently placed in a sub-section, auditors may not note all those that are applicable.

Question 3:

Yes, we believe that with the requirements and application material, professional skepticism is appropriately reinforced in relation to an audit of group financial statements.

We found that paragraph A10, which mentions examples in other ISAs with no specific references, was not useful. Reference to specific examples would be preferred.

Question 4:

In our view, the scope and applicability of ISA 600 (Revised) could be clearer. The reference to entities or business units in the definition of a group financial statements is broad. In the explanatory memorandum, the IAASB states in paragraph 26 that those terms will be sufficiently understood because similar terms are used in extant ISA 600. The term in the extant ISA 600, business activities, created interpretation issues in our experience. This is a good opportunity to better define what a business unit is and bring more clarity. It is important to do so as ISA 600 (Revised) brings new wording to describe the structures of the group. The definition of a group financial statement introduces branches or divisions in paragraph b) while the definition of a component introduces a location, function or activity (or combinations, functions or activities).

We support the definition of group financial statements including the linkage to a consolidation process. As the definition includes a consolidation process, users may expect all group financial statements to be a "Consolidated Financial Statements". Having a consolidation process has defined in ISA 600 (Revised) does not necessarily mean that the financial statements are consolidated as per the applicable accounting framework. We believe it might be of value to emphasise the fact a consolidation process

doesn't necessarily have the same meaning as consolidated financial statements as per the applicable accounting framework.

Question 5:

Yes, we believe the standard is scalable.

Question 6:

Yes, we support the focus on the auditor's view of the entities and business units comprising the group for purposes of planning and performing the group audit. This focus is complementary to the risk-based approach. That being said, the application of this new concept could be challenging in some groups. Auditors may have difficulty obtaining information in a way that allows them to audit the group efficiently and effectively since the accounting and consolidation system most likely reflect the entity's view of their structure and operations.

Also in some instances a group could manage and process transactions centrally for specific locations (for example all Canadian transactions managed at the group level in Canada) while the other transactions are managed and processed locally in different countries. Because the transactions are processed locally outside Canada, there is a consolidation process to aggregate the financial information of each country. If we look at the definition 9(b), in our example, Canada is a location like any other country and would end up being a component even if it is managed at the group level. If that is not the intent, the component definition could be more precise in specifying a "location, function or activity with transactions that are part of a consolidation process".

Question 7:

Yes, we support the enhancements to the acceptance and continuance of group audit engagements requirements and application material. The restrictions on access to information is now distinctly presented between restrictions outside the control of group management or restrictions imposed by group management. This clear distinction is valuable and makes the application of the standard clearer.

We find that the specific example about overcoming restrictions for a non-controlling interest in an entity that is accounted for by the equity method could be improved. The specific example does not mention involvement in the work of the component auditor. This could lead a user to believe involvement in the work of the component auditor is not required. Extant ISA 600 paragraph A15 provides an example of a component that is accounted for by the equity method. The example is quite specific about the obligation to be involved in the work of the component auditor. It also mentions that it could be acceptable to not be involved when the component is not significant for the group. We believe the same guidance could be added to the example in the ISA 600 (Revised) to avoid misinterpretation.

Question 8:

- A. No, the respective responsibilities of the group engagement team and component auditors are not clear. The definition of component auditor in paragraph 9(c) provides that a component auditor is a part of the engagement team. However, the definition of a group audit engagement team in paragraph 9 (j) does not include the component auditors. It's only when reading paragraph A13 that the reader understands that the standard uses two aggregations of the engagement team. There is the group engagement team (the core team) and there is the engagement team which include the core team and others. The wording used throughout the standard may impact its consistent application because the wording is too similar. We believe the standard could be improved if it used more precise vocabulary such as "core team" or "extended group engagement team".
- B. Yes, 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. ISA 600 (Revised) includes sub-sections throughout the standard that describes the requirements that apply when component auditors are involved. These separate sub-sections helps to clarify the interactions that are needed between the group engagement team and the component auditors throughout the different phases of the group audit.

- C. Audit of financial statements of an entity or business unit may be issued for statutory or other reasons. The group engagement team may have used those audited financial statements in past years. Now that the focus is on risk instead of significant components, there might be audited information that won't be relevant for the group audit. These situations may create audit costs for entities that continue to perform statutory audits believed to be relevant for the group audit.

Question 9:

Yes, we support the additional application material on the commonality of controls and centralized activities. We believe this application material is clear and insightful. The requirement in paragraph 24 (a) (i) c. about obtaining an understanding of the extent to which the group's business model integrates the use of IT may be challenging to implement in situations where there are many different component auditors or when there are many levels of components. It may also significantly increase the involvement of IT specialists in a group audit.

Question 10:

Yes, we support the focus in ISA-600 (Revised) on component performance materiality including the additional application material. However, we believe that reference to the materiality at the group level should also remain. The extant ISA 600, paragraph 21 (a) includes the following " The group engagement team shall determine the materiality for the group financial statements as a whole when establishing the overall group audit strategy". This establishes a strong linkage with ISA 320 for materiality at the group level.

Since components are not based on legal entities or business units anymore, determining the materiality at the component level may be challenging. In some instances, a group audit could have 2 components based on location, one shared service and two activities. Since the nature of these components could be quite different, it may be challenging to develop a methodology to allocate materiality at the component level. Consistency in how to allocate the materiality will also be an issue within firms. We think the standard could include more application material in this regard.

Question 11:

- A. There are no specific matters that we believe should be documented other than those described in paragraph 57. We note and support paragraph A124 which provides that the component document may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.
- B. We agree with paragraph A129 and A130 which mentions that the group engagement team is nonetheless required to obtain sufficient appropriate audit evidence when audit documentation access to the component auditor's documentation is restricted.

Question 12:

Yes, there are other matters we would like to raise in relation to ED-600.

Paragraph 21 (b) states "*When information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to the group audit and determine its effect on the group audit*". This conditional requirement may have limited impact since component auditors may not be open to sharing the results of their monitoring and remediation process when they have significant issues.

Question 13:

- A. No translation issues noted.
- B. An effective date 18 months after approval should provide a sufficient period to support effective implementation of the ISA.